

**Minutes of the Meeting of the UK User Committee
of Euroclear UK & Ireland ("EUI")
("UK UC" or the "Committee")
held on Tuesday, 21 May 2019 at 1:30pm
at the offices of
EUI, 33 Cannon Street, London EC4M 5SB, United Kingdom**

Present: Marye Humphery (Chair); Richard Barber (dial-in); 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: Barbara Atim; Rachael Leith; Paul Miles; Jennifer Parker (Committee Secretary); Charles Pugh; and John Trundle.

1. Welcome by the Chair

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

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.

3. Minutes of the meeting held on 12 February 2019

The Committee discussed the minute relating to the *USD Settlement – Takeda Shire Transaction* and one member queried whether settlement bank practices in relation to USD settlement required further review. Another member replied that this was a risk management matter for settlement banks. The Chair noted that the minute accurately reflected the discussion that had taken place at the February meeting and Mr Miles agreed to revert to the Committee should any issues arise in the future regarding USD settlement practices that fell within the mandate of the Committee.

The Committee **APPROVED** the minutes of the Committee meeting held on 12 February 2019, subject to the Chair's approval of minor drafting changes to be proposed by Mr Kempe to section 8 of the minutes relating to his presentation regarding the Shareholder Rights Directive II. [*Post meeting note: drafting changes approved and final minutes posted to the Euroclear website.*]

4. Matters Arising

The Committee **AGREED** to close the actions items proposed for closure and noted that the Open Actions numbered 1-3 would be covered during the meeting.

5. Adoption of Updated User Committee Terms of Reference ("ToRs")

Ms Parker informed the Committee that two minor updates to the Committee ToRs had been approved by the Board on 20 May 2019 and the updated ToRs were now presented to the Committee for approval and adoption.

The Committee noted the changes and **APPROVED** and **ADOPTED** the updated Committee ToRs as presented.

Ms Parker stated that in accordance with CSDR, the updated ToRs would be published on the EUI website.

6&8 Post Brexit CSD and Settlement arrangements Update and CSDR Update

Mr Pugh gave an update on EUI's application for CSDR authorisation and the Committee noted the indicative timeline for approval.

Mr Pugh provided an update on the changes required to meet the CSDR settlement discipline requirements, which were currently expected to be implemented by September 2020. He confirmed that EUI had launched a Settlement Discipline Working Group ("SDWG"), which would hold its first meeting on 30 May 2019. He agreed to circulate the SDWG composition to the Committee. *[Post meeting note: done]*.

The Committee noted the settlement discipline presentation and raised a number of questions relating to message types and formats. *[Post meeting note: Committee members were informed on 29 May 2019 that: "Euroclear Group are only developing the MT537 message in ISO 15022 for Settlement Discipline reporting and EUI will be aligning with the other members of the Group on this and other new Settlement Discipline ISO 15022 messages where possible, the full details of specific fields within the messages have still to be finalised."]*.

The Committee discussed the proposed approach for settlement discipline reporting by using an MFT link (and not the CREST FT or GUI interfaces). Mr Miles noted the strategic intent to adopt a common approach for group clients and a bespoke solution for domestic-only clients. Committee members commented that this potentially represented a material change for clients and Mr Miles replied that the proposal, including potential client impact, would be further reviewed at the SDWG.

Mr Castelanelli joined the meeting.

Mr Pugh highlighted the following further matters:

- discussions were ongoing with the retail community regarding the interplay between the CASS rules and EUI's intention to take settlement discipline fines from participants' CMAs;
- Matching: EUI proposed that "place of trade" would become a matching field;
- Tolerance: EUI was seeking guidance on this issue from ESMA;
- Guidance would be issued in due course on matters such as book-building.

Mr Louis encouraged EUI to re-engage with the Bank to review the current proposals and play out scenarios.

The Committee noted its concerns regarding:

- the potential level of settlement discipline fines;
- the operation and impact of buy-ins;
- how firms would manage their internal processes regarding fines paid and received as the supporting infrastructure could be extensive.

7. CEO Update

Mr Trundle presented the CEO Update and highlighted that EUI system performance year to date stood at 100% (rounded). He reported that there were no relevant audit matters to draw to the attention of the Committee.

Mr Trundle noted that a major hardware release was scheduled for the last weekend of May and agreed that EUI would issue a bulletin to the market to enable firms to plan resources if required. **Action: Mr Miles** *(done)*.

Mr Trundle announced his forthcoming retirement at the end of August and noted that the search for his replacement was ongoing, with the Board considering both internal and external candidates. Mr Trundle expressed his appreciation of working with the Committee, and also its predecessor, the UK Market Advisory Committee. On behalf of the Committee, Mrs Humphrey thanked Mr Trundle for his contribution to the market and gave their very best wishes for the future.

9. Product Update

Mr Miles thanked Committee members for the proposals received to date for member update sessions and noted that he would provide a list of such proposals. **Action: Mr Miles.**

Mr Miles gave a verbal update on EUI business development and the Committee noted the following:

- *Dividends with Options* was currently expected to be launched in Q4 2019, initially with one registrar, and with the intention of implementing more widely. Mr Kempe reported an increase in cheque fraud related to dividends and encouraged the roll out of the Dividends with Options functionality through CREST;
- *Funds*: Mr Miles reported that an increasing number of transfer agents ("TAs") were joining the CREST settlement model, resulting in a significant increase in the number of funds available in CREST. Mr Miles referred to the issue noted at the previous meeting regarding migration from one fund manager to another and reported that good progress had been made in revising the current processes and procedures with TAs. The revised model had been successfully followed in a subsequent TA migration;
- *EUI Strategy*: Mr Miles reported that EUI Board strategy off-site was to be held later in the week. Mr Trundle confirmed that, following a period of CSDR focus, EUI was moving into a position to consider opportunities for further business and service developments and would be setting its agenda for the next 3-5 years;
- *Shareholder Rights Directive II*: Mr Miles confirmed that a further update would be provided at the September meeting of the Committee. **Action: Mr Miles;**
- *Tariff*: Mr Miles reported that EUI intended to review its current tariff, which had been in place since 2012. He noted that there were important cost drivers that EUI needed to take into account (including cyber and regulatory costs) as well as enabling EUI to invest in product and service development and simplify the current tariff. Pursuant to CSDR and the User Committee ToRs, EUI would consult with the Committee on the proposed tariff changes to enable the Committee to provide a non-binding opinion to the Board on EUI's pricing structure. Mr Trundle confirmed that EUI would revert to the Committee when more details of the proposed changes were available. He added that EUI was also reviewing its current cost base to identify opportunities for efficiencies and cost saving.

Mr Castelanelli encouraged early engagement with the Committee, which he saw as a necessary preparatory step to gaining market support to the changes. Committee members commented that a "balanced" result across market segments should be sought and two members observed that account should also be taken of the fact that the cost of Irish securities settlement would be higher in Euroclear Bank than in CREST. The Chair reminded the Committee that this was the UK User Committee and should focus on the UK market. Mr Castelanelli added that it was important that the UK infrastructure had the means to invest in service development and keep the UK competitive.

The Committee appreciated the early notification and asked for further updates at its next meeting. **Action: Mr Miles.**

10. Any Other Business

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

**Signed: Marye Humphery
Chair**