

PUBLIC

Minutes of the Meeting of the UK User Committee of Euroclear UK & Ireland Limited ("UK UC" or the "Committee") held on 6 May 2020 at 13:30pm by Teleconference*

Present: Marye Humphery - Chairperson
Richard Barber - Citibank Europe Plc
David Daniell - UBS
David Gaselee - Barclays
Tony Jones - JP Morgan
Mark Louis - Bank of England
Judy Price - Investec Wealth
Richard Turrell - LCH.Clearnet

Apologies: Richard Barrett - DST
David Berry - Brewin Dolphin
Jason Phillips - DMO

In attendance: Barbara Atim; Chris Elms; Jennifer Parker (Secretary); An Mestdagh (item 7 and 9); Paul Miles; Charles Pugh; Chris Twemlow and Tom Challenor (EUI Independent Director).

* *Full meeting conducted via teleconference; Cannon Street office closure and travel restrictions in place due to the Coronavirus.*

1. Welcome

The Chair welcomed the Committee members to the meeting.

The Chair noted that Mark Louis had announced that he would be leaving the Bank of England for a new role and accordingly would step down from the Committee. This would be discussed further under agenda item 3 - Committee Membership Changes. The Chair and Committee members thanked Mr Louis for his strong contribution to the Committee during his membership.

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. Committee Membership and Changes

Ms Parker presented an update on changes of the Committee membership and noted there were several vacancies arising on the Committee. She noted that Mr Castelanelli had left HBSC, Mr Kempe had left Link Asset Services and, as announced at the start of the meeting, Mr Louis would step down from the Committee. In addition, she noted that a further Committee member had recently left his organisation and, as discussed at the previous meeting, there was an opportunity for a further representative from the retail segment to join the Committee.

Ms Parker noted that, in the light of these changes, the composition of the Committee was being reviewed to ensure it continued to have a balanced and experienced representation across the sectors. A further update would be provided to the next Committee meeting- **JCP/PM**

4. Approval of minutes for the meetings held on 30 January 2020

Mr Barber noted that his organisation had been incorrectly noted in the Minutes of 30 January 2020 and requested that a correction be duly made.

Subject to the aforementioned amendment, the Minutes of 30 January 2020 were APPROVED.

5. Matters Arising

The Committee **AGREED** to close the actions items proposed for closure and noted that the Open Actions numbered 3, 9 and 9.3 would be covered during the meeting.

6. Tariff: Implementation – Timing

Mr Miles presented the tariff implementation update paper and referred the Committee to the recent Operation Bulletin regarding the tariff implementation timing. He noted that, following discussions at previous meetings with the UK UC, it had been agreed to introduce the tariff changes in two phases, in April and July 2020. However, due to the impact of COVID-19, the EUI Board had subsequently decided to defer the April changes and implement all changes at the same time with effect from 1 July 2020.

A Committee member asked whether there had been any adverse impact from a recent article published by SKY News. Mr Miles noted EUI had not formally responded to the article but did not consider it to be fair or balanced reporting. There had not been any adverse client fallout.

A Committee member challenged the July implementation date, noting that mid-year tariff changes were sub-optimal from a budgeting perspective. Mr Elms reminded the Committee that 1 July had always been the start of CREST's tariff year and was not a new requirement. Further, the Committee had discussed at length since Q4 2019 that the tariff increases would be introduced in two phases in April and July 2020. Mr Miles added that the principles of the tariff increase remained the same and noted that clients had started to make provisions for the price increase with effect from 1 July.

A Committee member asked whether the high volumes in March and April 2020 had changed EUI's views on expected revenues and/or the structure of the proposed tariff changes. Mr Miles responded that EUI's forecast 2020 revenues had not changed overall (noting, inter alia, the subsequent flattening of volumes and the effect of netting) and EUI did not intend to revisit the tariff changes, which would be implemented with effect from 1 July 2020 as announced.

7. Post-Brexit and CSD Settlement

Ms Mestdagh gave an update on the *Irish Securities Settlement Post Brexit Update* paper and the following matters were noted:

- Despite the current challenges as a result of the pandemic, strong engagement by all the major stakeholders involved in this project continued;
- Project momentum was being sustained and the work continued to progress as planned for Irish CSD migration to Euroclear Bank (EB) before end March 2021 when EUI would no longer be able to act as Issuer CSD for any EU 27 issued security;
- the Irish authorities had confirmed the 12 March 2021 target migration date;
- Euroclear had received written opinions from ESMA and the EU Commission which support the EB interpretation of CSDR, CDI and EUI equivalence;
- EB had received their passporting authorisation in March 2020;
- There were further legislative changes required. These had been delayed due to changes in the Irish Government but there was currently no concern that these changes would not be in place by the March 2021 migration;
- All Services Descriptions had now been issued; the Registrars' Service Description had been signed off by the four Registrars and published on 1 April 2020;
- An updated Service Description for EB investors was published on 9 April 2020;
- EUI continues bilateral discussions with EUI participants regarding the proposed fees following the migration and the impact on their overall fees ;
- Issuer update meeting held by Euronext on 25 February 2020;

- Irish Revenue Commissioners (IRC) to revert on Real-time Dividend Withholding Tax proposed live date of 1 January 2021 following market feedback;
- Irish Authorities have confirmed that the legislation covering Stamp Duty will be updated as part of the Finance Bill in Q4 2020;
- EUI's migration document scheduled to be published in May;
- EUI continues to track project progress of individual stakeholders.

Ms Mestdagh gave a brief overview of the timeline of the project and an update on progress across the key stakeholder constituencies.

The Committee received an update on the proposed tariff for the custody and settlement of Irish domestic equities following the migration to EB. This covered the EB tariff in addition to the EUI tariff in order to provide a full picture. Ms Mestdagh confirmed that the tariff would be formally published in the near future and that clients would be provided with a tariff simulator to enable them to model the impacts of the new tariff based on their own business.

The Committee raised questions on the potential split of Irish securities business between EUI (in CDI form) and EB following migration. In response, Ms Mestdagh noted that EUI had no current view of the likely split. Clients were considering the matter and decisions would be dependent on matters such as service levels, liquidity of the security and pricing. Mr Miles noted EUI had started bilateral discussions with clients.

A Committee member asked if all Irish equities currently settled in CREST would be available in CDI form following migration, noting that some CREST clients did not have an EB account. Ms Mestdagh confirmed that this would be the case, provided that the relevant issuer migrated to EB. In response to a question from another member, Ms Mestdagh noted that there was no indication that any issuer was currently considering redomiciling, although this possibility had been noted at the outset of the programme.

The Chair closed the discussion by noting that it would be difficult to judge now how market behaviour might change, highlighting that this was dependent on a number of factors, including liquidity. Ms Mestdagh confirmed the importance of maintaining open communication with the Committee members and the wider client base during this period and the Committee welcomed the spirit of partnership

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

Mr Elms presented the CEO update and highlighted that EUI's Q1 2020 operational performance stood at 99.94% (target 99.8%) and funds' performance was at 99.91%.

Mr Elms informed the Committee members that there had been a short CREST settlement outage on 27 February 2020 and two further re-occurrence on 23 April 2020 and 3 May 2020. There had been two incidents on 27 January 2020 and 25 March 2020 on the EMX funds service, as set out in the CEO report to the Committee.

The Committee noted the CEO update with no further comments.

Mr Elms thanked the Committee members for their support during this difficult time and provided the Committee with an update on EUI's COVID-19 response. Mr Elms informed the Committee members that EUI service remained good and highlighted that the focus had been on business continuity, staff welfare (with the implementation of remote homeworking) and business resilience.

Mr Elms informed the Committee members that there had been significant turbulence in the market. On two days there had been a significant increase in the volume of transactions settled: 450,000 compared to the usual 300,000. The systems had coped well during the spike, within capacity. Settlement efficiency had dropped initially but had subsequently returned to normal levels. The Settlement Discipline Committee (**SDC**) had recognised that settlement fines may increase during this period and the Committee would consider the position further once the data for the current settlement discipline period was available. No decision would be made by the SDC before the end of the period and Mr Elms reminded the Committee that the SDC was independent of EUI and its members were external.

Mr Elms informed the Committee members that the regulators were operating an enhanced monitoring regime with a twice weekly meeting.

There were no relevant audit findings for the period to report to the UK User Committee.

All Committee members thanked EUI for the good service maintained during this difficult time.

9. Product and Service Update

9.1 Future of the Crest Courier and Sorting Service (CCSS)

Mr Miles proceeded with the Crest Courier and Sorting Service (**CCSS**) update. He highlighted that TNT had withdrawn their services with effect from 31 December 2020 and EUI was in the process of developing a revised service model. He noted that a proposed electronic service option had been paused and the current focus was on the development of a physical model. Fortnightly meetings continued with the Registrars to give input to the new solution. The market would be kept updated on the project.

One Committee member asked whether the registrars had eased their requirements on the timely receipt of documents during the pandemic. Mr Miles noted that the parties were pulling together to ensure that the paper process continued to work effectively, but there not been any change to the current standards.

ACTION: Mr Miles to present an update on the revised model to the next Committee meeting.

9.2 International Service – Rationalising CSD Links

Mr Miles reminded the Committee members that EUI planned to move its international securities' depot currently held with SIS to EB. Mr Miles noted this project continued to remain on track for completion in August 2020. There would be no change to CDI processing within CREST, although XDL movements would change to EB. Mr Miles informed the Committee members that the consultation had been published and noted EUI would be engaging with clients to address any concerns.

The Committee noted the update with no further comments.

9.3 User Committee Financial Crime Update

Mr Miles provided an overview of the impact for clients of potential changes to EUI's KYC and due diligence processes in line with EUI's Financial Crime Programme. The Programme was designed to ensure ongoing compliance with financial crime prevention regulations and legislation. EUI was looking at the full CREST client universe and an Operational bulletin would be issued to clients in due course setting out EUI's requirements and information needed from clients. Mr Miles confirmed that, where possible and practical, EUI would seek to avoid duplication for clients that were also clients of other parts of the Euroclear group.

9.4 CSDR Update

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

- EUI's CSDR application continued to progress;
- on 22 January 2020 a number of European trade associations had written a letter to the EU Commission and ESMA requesting a delay in the CSDR settlement discipline and buy-in requirements. ESMA had now responded to the letter, noting ESMA had already proposed a delay until 1 February 2021 and would monitor developments due to the impact of Covid-19; however, it would not currently propose a further delay.
- CCPs – Mr Pugh noted that Article 19 and penalties application on CCP transactions had been delayed and pending further review.
- EUI's November 2019 release had been successful and a mandatory business launch originally foreseen on 4 May 2020 had been delayed due to Covid-19 with a revised release date of 26 July 2020 and with an additional testing period in June 2020.
- EUI's Home working continues and project work on the Settlement Discipline regime continues.
- Euroclear Group's home working continues with the development of the settlement penalties engine and with market discussions continuing to the timeline of the regulatory filings.
- CSDR SD Reporting: Mr Pugh noted that CSDR SD reporting would not be via the CREST system

A Committee member noted the ICMA Q&A regarding triparty transactions and asked about the potential impact on Term DBV transactions in EUI. **ACTION:** Mr Miles to update the Committee at next meeting .

10. Meeting Dates 2020

The Committee noted the 2020 dates with no comments.

AOB

A Committee member proposed that a “lessons learned” section should be on the agenda for future meetings. He drew attention to the ongoing prevalence of dividend cheques in the market, which had been exacerbated by the current pandemic in the midst of the dividend season and resulting in a backlog of paper. He noted that CREST had introduced Dividends in CREST functionality some years ago but take up remained low and it could be interesting to consider how usage could be increased. Mr Miles replied that CREST was not in a position to mandate use of its functionality but would be keen to explore ways to increase take up.

Another Committee member countered that his organisation had seen a sharp decline in cheque depositing and queried whether lessons could be taken for the CCSS project and imaging proposals. Mr Miles agreed that it would be helpful to take on board lessons learned on the payment side and that this could also inform future dematerialisation work.

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

Date of Next Meeting – 23 September 2020

Signed: Marye Humphery