

**Minutes of the Meeting of the UK User Committee
of Euroclear UK & Ireland ("EUI")
("UK UC" or the "Committee")
held on Tuesday, 05 November 2019 at 3:00pm
at the offices of
EUI, 33 Cannon Street, London EC4M 5SB, United Kingdom**

Present: Marye Humphery (Chair); Richard Barber (dial in); Richard Barrett; David Daniell; David Gaselee; Tony Jones; Michael Kempe; Mark Louis; Jason Phillips; Judy Price; and Richard Turrell.

Apologies: David Berry and Philippe Castelanelli

In Attendance: Barbara Atim; Laura Blake (item 9); An Mestdagh (item 9); Cevdet Sumbultepe (items 6 and 10); Philippe Laurensy; Paul Miles; Jennifer Parker (Committee Secretary); and Charles Pugh

1. Welcome from Chair

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 noted that they had a conflict of interest in relation to the tariff discussions insofar as the matter related to the position of their respective firms. However, as set out in CSDR and the Committee's Terms of Reference, the Committee could deliver a non-binding opinion to the EUI Board "containing detailed reasons regarding the pricing structures of the CSD" and accordingly all Committee members would participate in the discussions.

Mrs Humphery offered to recuse herself from the meeting during consideration of her proposed re-appointment as Committee Chair. The remaining Committee members agreed that this would not be necessary.

Subject to the foregoing, Committee members confirmed that they had no conflicts to declare.

3. Committee Constitution: Re-Appointment of Chair

The Committee noted that the proposed re-appointment of Mrs Humphery as Committee Chair was recommended by the independent directors of EUI and unanimously approved (other than the Chair, who did not vote) the re-appointment of the Chair for a further two year term.

4. Minutes of the meeting held on 03 September 2019

The Committee **APPROVED** the minutes of the Committee meeting held on 03 September 2019, with no further comments.

5. Matters Arising

The Committee **AGREED** to close the actions items proposed for closure.

The Committee noted that this meeting would focus on tariff matters and that the remaining open actions would be considered at the next Committee meeting.

6. Tariff Review Update

The Chairperson reminded the Committee that, as set out in CSDR and the Committee's Terms of Reference, the Committee may deliver a non-binding opinion to the EUI Board "containing detailed reasons regarding the pricing structures of the CSD". The information provided at the meeting was provided to members strictly in their capacity as members of the User Committee and was commercially sensitive. It was made clear that all materials and discussions were confidential and should not be shared within Committee members' respective organisation.

Mr Miles, the EUI CBO, opened the discussion and noted that the Committee's feedback would be shared with the EUI Board. In particular, the Chairperson commented that her standing report to the EUI Board would summarise the Committee's output from these tariff discussions. Mr Miles added that bilateral discussions were also ongoing with clients and would form part of the overall feedback presented to the EUI Board to support its decision-making in respect of the planned tariff changes. Mr Miles and Mr Sumbultepe set the context for the tariff review:

- there had been no significant price review since 2012, whilst accumulated inflation over the period was approximately 16%. Going forward, EUI would seek to engage more regularly with the Committee on tariff matters;
- EUI faced increased regulatory costs and obligations, particularly as a result of CSDR. For example, EUI was required to move away from the current CREST proprietary messaging to international (ISO) message standards, which would require further investment;
- EUI was continuing to invest significantly in Cyber and other operational resilience areas. There was also a need to invest in upgrading the current CREST technology and to review the current IT communications strategy;
- following the launch of the CSDR settlement discipline penalties regime, EUI would no longer retain settlement fines, which to date had been invested in the system for the benefit of the market as a whole (~£3 million per annum);
- EUI currently had comparatively low levels of charges for asset maintenance and servicing and its annual standing charges were amongst the lowest compared to other CSDs in Europe. EUI wished to rebalance its tariff equitably across its client base and to reduce its sensitivity to settlement volumes
- EUI recognised the need to continue focusing on cost control, while maintaining an efficient and resilient system.

Mr Sumbultepe presented an overview of the planned tariff changes.

In response to questions from the Committee, Mr Miles noted that the impact of the planned tariff changes was broadly equivalent across the different market segments, with variations within segments due to differing business profiles and operating models. He added that EUI could not provide sector breakdowns to the Committee as such information was commercially sensitive but confirmed that all firms had received (or would shortly do so) information on the modelled impact of the changes for their respective organisations.

Mr Sumbultepe highlighted the graph in the presentation deck which illustrated that EUI revenues had remained broadly flat, with a declining trend, since 2012 whilst costs had increased. Committee members replied that the chart implied that EUI still had a clear margin between revenue and operating expenses, but noted that no scale was provided and no projections were given for 2020 and beyond using either the existing tariff or the proposed tariff. Such information was requested to allow the Committee to form a clearer view of the context and to understand the forward looking view over a 3-5 year period.

The Committee emphasised the need for strong cost control, as both the revenue and costs sides must be considered. The Committee asked for further information on EUI's expense reduction programme. For example, could more be done to leverage other parts of the Euroclear Group, including leveraging the Group's purchasing power? Mr Laurensy explained that CSDR required more local responsibility within the CSDs and as a result costs had increased for all CSDs in Europe, but that opportunities would be explored further. Mr Sumbultepe highlighted that the CREST International Service was delivered via Euroclear Bank and two others providers (DTCC and SIX-SIS) and the proposed reductions to the international service tariff were, inter alia, intended to reflect more precisely the costs charged to EUI.

Action: EUI to consider how the Committee's information requests might be addressed, taking relevant legal and regulatory requirements (such as commercial sensitivity) into account.

The Chairperson asked members if any thought that a review was unnecessary after seven years. All agreed it was appropriate in principle but were against the increase being introduced as a "big

bang"; gradual increases and regular reviews would be preferable. In particular, several members commented that, given the size of the increase in certain areas, it would be disproportionate to introduce the changes in one step. It was pointed out that the 2012 review had guaranteed a five year moratorium, but management accepted that seven years was too long. Going forward annual reviews would be more appropriate, but there was no appetite from members for further large increases. A member wanted to highlight that CREST had been built on a cost plus principle and asked if this was no longer the case, since this proposal seemed based on profit maximisation. Members also wanted to know how the extra revenues would be spent for the good of the market. EUI noted the earlier explanation that investment was needed for, inter alia, regulatory compliance and technology renewal and the request for a 3-5 year forward looking view was repeated. A member asked whether a one off investment or time limited increase, such as ESES had applied in relation to T2S investment, would be more appropriate for certain developments such as the IT Comms strategy.

The Chairperson asked members whether they thought rebalancing was unnecessary, or whether it was appropriate for fees to reflect the work or the value of the service. One member was strongly against, saying that the CREST was built as a settlement system, therefore fees and revenues should be primarily be collected from settlement fees. Mr Miles noted that EUI's annual standing charges were low compared to other European CSDs and there was a good argument for increasing standing charges to provide a predictable, steady revenue stream. Most members were mainly concerned that any changes should be fairly apportioned and that EUI should carefully consider the possibility of unintended consequences arising from the changes. A number of examples were given:

- the proposed changes to the collateral tariffs could result in EUI DBVs becoming less competitive, with a potential infrastructure impact;
- the impact of the proposed changes on the CCP community;
- the proposed increase in the member account charges would affect the retail sector in particular. It was noted that such an increase could lead to an increased use of omnibus accounts and a move away from designated accounts, which was potentially in contradiction with the EU drive (eg the Shareholder Rights Directive) towards greater designation. Euroclear noted that CSDR required firms to offer their clients a choice between omnibus and designated accounts; from an EUI perspective, it incurred higher costs in relation to designated member accounts, particularly in relation to fulfilment of its KYC and AML obligations. One member commented that firms were already expected to increase their charges for offering designated accounts and that this was in line with EUI's approach;
- the proposed changes to the personal membership tariffs (from £10 per year to £120 per year) could result in a further decline, or even cessation, of the personal membership service. One member expressed concern that personal membership provided clearer asset segregation in the event that a broker went into administration.

Members asked whether EUI had run revenue forecasts based on different scenarios, to include changes to usage and business models and this was confirmed. Mr Miles also confirmed that modelling had been prepared for all firms, and reiterated that the impact of the tariff changes varied by firm, depending on their business profile and organisation. The overall impact of the tariff changes was a 10% increase in revenues (after taking the loss of settlement discipline revenues into account), which was less than the cost increases and inflationary impacts that EUI had faced since 2012. A number of members pointed out that they had been unable to increase fees while being subject to the same inflation and regulatory cost pressures. They questioned whether the increase was justifiable given the apparent current healthy profit margin and asked for more information on how the additional revenues would be spent. The Committee repeated their earlier request for a better view on how the additional revenues would be apportioned across the different sectors and for a 3-5 year forward looking view on costs and revenues.

The Committee challenged that some tariff increases were very significant in percentage terms, although it was noted that materiality should also be taken into account (for example, the annual charge for a member account would increase from £1 per year to £12 per year).

The Committee discussed the potential impact of the move of Irish securities settlement to Euroclear Bank in 2021. EUI confirmed that the loss of Irish securities settlement revenue had been factored into the modelling, but it was difficult to give a view on any consequential likely increase in international service revenues (via CDI holdings) as the EB tariff for Irish securities had not yet been agreed and there were a number of moving parts.

The Chairperson summarised the Committee's feedback under the following headings:

- The need for a fee review was recognised as due and the Committee welcomed the open discussion;
- Further clarity and transparency was required;
- 3-5 year projections would be helpful ;
- Tariff review should take place annually with the opportunity for reductions not only increases;
- 7 years without change is resulting in a big bang increase which is sub-optimal;
- Rebalancing the fee structure was recognised as perhaps necessary but some were strongly against;
- Increases should be fairly apportioned across sectors;
- Rebalancing could lead to unintended consequences which need to be explored and considered; and
- The founding principle of EUI was cost plus, this proposal appears run contrary to that position.

The Committee discussed next steps and asked EUI to provide further information and the opportunity for further discussion. The Committee discussed the process for preparing a non-binding opinion and agreed that, if the Committee decided to prepare an opinion, it should be principles based as it was not for the Committee to opine on specific tariff lines.

It was agreed that a draft note of the meeting would be sent out as soon as possible, with follow up from management to indicate what further information could be made available. **Action:** Ms Parker/Mr Miles.

There would also be further follow up by the Committee Secretary in relation to the process for preparing a non-binding opinion. **Action:** Ms Parker.

7. CEO Update

Mr Miles presented the CEO Update on behalf of Mr Elms and highlighted that EUI system performance year to date stood at 99.94%. Mr Miles informed the Committee members that there had been two CREST incidents on 17 September 2019 and 30 September 2019, as set out in the CEO Report to the Committee.

The Committee discussed the impact of the incident of 17 September 2019 on the EMX funds service. Mr Miles noted that the incident had highlighted the business continuity impacts for the market if the EMX funds order routing service were not available. This would be discussed further with funds market participants as part of the post-incident review.

8. Internal Audit presentation

Mr Zapita explained the process for the reporting of relevant audit findings to the User Committees as required by CSDR Article 52. Mr Zapita noted that audit findings reported to the Committee ((i) EUI CREST Settlement; (ii) Physical and Environmental Security of Data Centres and (ii) Tactical Tools) fell within the "medium" category. He explained that, where findings were in a high category, EUI had a six months to ensure a solution was found, and where in a medium category EUI had a year to address the finding. Mr Zapita noted that findings were only closed off after a further audit check was done.

The Committee asked Mr Zapita to report back at the next EUI UK User Committee on the status of the medium findings.

ACTION: Mr Zapita to provide a status update on the medium findings to the User Committee.

9. Post Brexit CSD and Settlement arrangements Update

Ms Mestdagh, joined the meeting and gave a status update on the programme for Irish securities settlement following Brexit.

The Committee noted that the Irish authorities had underlined that migration would happen in March 2021, irrespective of the Brexit outcome. The timeline remained very aggressive and the Irish Migration Bill was targeted for enactment by December 2019.

Ms Mestdagh also noted the Irish Revenue Commissioners had approved the Stamp Duty process and the DWT process which would happen in 2021. A Committee member noted that the market had not yet approved the process.

One of the Committee members noted that, as the implementation timeline was very challenging for all affected market players, it was important for this topic to remain on the UK User Committee agenda in addition to the Irish User Committee and ensure that UK market focus was maintained. The Committee requested a detailed discussion the next Committee meeting to consider the status of the programme and actions needed at market level. **Action: Ms Mestdagh.**

Ms Blake joined the meeting and the supporting Brexit presentation was noted. She gave an update on the Brexit-related data protection question raised at the previous meeting and one Committee member noted that he had received a different legal opinion.

Action: Ms Blake to discuss further off line with the Committee member and revert to the User Committee at its next meeting.

10. Product and Service Update

No updated was provided to the EUI UK User Committee.

11. CSDR Update

Mr Pugh updated the Committee on the status of EUI's CSDR application and agreed to provide a further status update at the next meeting. **Action: Mr Pugh**

With regard to the settlement discipline penalties regime, Mr Pugh noted that EUI system developments were being progressed in line with the ECSDA framework as far as possible. However, further updates from ESMA were still awaited. He reminded the Committee that the November release (over the weekend of 18 November 2019) would include the technical launch of the mandatory changes that would come into effect on 4 May 2020. Mr Pugh informed the Committee that the Service Description for the settlement discipline regime would be published shortly. It would set out the assumptions taken and highlight areas where ESAM feedback was still required.

Mr Pugh confirmed that a market-wide Settlement Discipline Steering Group (SDRSG) was being set up and would be jointly chaired by the Bank of England, FCA and Central Bank of Ireland. It was expected to hold its inaugural meeting before year-end.

There were no further questions.

12. Committee Effectiveness Review - Launch of process

Ms Parker informed the Committee members that she would issue a self-assessment Committee Effectiveness questionnaire for their completion. The findings would be presented to the next meeting of the Committee. **Action: Ms Parker**

The Committee noted the importance of two way feedback and suggested that presenters should be asked whether they found the Committee's feedback to be effective and helpful. Similarly, the Committee requested that relevant feedback from the Board regarding the Committee's effectiveness would be appreciated. **Action: Ms Parker**

13. Proposed Dates for 2020

The proposed 2020 meeting dates were noted. In addition, it was agreed ad hoc meetings may be required and should be scheduled as needed.

14. Any Other Business

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

**Signed: Marye Humphery
Chair**