

PUBLIC

**Minutes of the Meeting of the UK User Committee of Euroclear UK & Ireland Limited
("UK UC" or the "Committee")
held on 18 November 2020 at 13:30pm
by Teleconference***

Present: David Gaselee - Barclays (acting Chair)
David Daniell - UBS
Neil Foley - Bank of America
Nigel Jenkinson - SS&C
Tony Jones - JP Morgan
Louise Kingswell - HSBC
Ross Paterson - Hargreaves
Jason Phillips - DMO
Michael Sansom - Computershare
Richard Turrell - LCH.Clearnet

Apologies: Marye Humphery - Chairperson
Richard Barber - Citibank Europe Plc
Hannah Reynolds - Bank of England
David Berry - Brewin Dolphin

In attendance: Michael Carty; Chris Elms; Jennifer Parker (Secretary); Holly Fergusson, An Mestdagh (item 7); Paul Miles; Charles Pugh; Paul Rich (item 9); Jeremy Woods (item 10); Eric Zapita (item 11); 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 Committee received apologies from Mrs Humphery who was unable to connect to the meeting due to a power cut. The Committee agreed that Mr Gaselee would chair the meeting in her absence.

Mr Gaselee noted that apologies had also been received from Ms Reynolds. He welcomed Mr Sansom to the meeting and extended the Committee's welcome to Mr Carty to his first meeting of the UK User Committee following his appointment as EUI CEO.

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 meeting held on 23 September 2020

The minutes of the meeting held on 23 September 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

5. September Incident Review

Mr Elms presented an update on the CREST incidents that arose on 11 and 14 September 2020. He noted that an external review was being conducted by Ernst & Young (EY), with the draft report due in mid-December. The final EY report was expected in January 2021 and a further update would be shared with the User Committee and market at that time.

Action: update on the September incidents to be presented to the January 2021 Committee meeting.

Mr Elms highlighted that technical changes had been implemented following the incidents in line with recommendations received from the software provider, including the release of a patch, and that procedures had been put in place to manage the situation should such an incident re-occur.

Mr Elms provided an overview of the subsequent incident that arose on 10 November 2021, noting that the CMBCG had been called as a precaution. The contingency procedures put in place following the September incident had been followed. The root cause of the incident was currently under investigation but it did not appear to be the same issue as arose in September. EUI was working with the service provider to investigate the incident, which technical in nature and there was no reason to link it to cyber issues. EY had been asked to include the November incident in the scope of its review.

A member noted that there had recently been an outage at Euroclear Bank (**EB**) and questioned whether wider concerns were raised. Mr Elms confirmed that there was no commonality to the incidents and reiterated the seriousness with which Euroclear was treating these incidents. A member underlined that operational resilience was a key issue for all financial market participants. Mr Elms confirmed that resilience was similarly business critical to EUI and that EUI was subject to the same operational resilience requirements as other market participants. EUI was in the midst of its preparations for implementation of the operational resilience regulations. Committee members noted the importance of continued engagement across the market constituencies, including review of potential changes to processes and procedures, and suggested that consideration be given to conducting "wargame" scenarios with participants. Mr Elms confirmed that these matters were expected to form part of EUI's business resilience activities as EUI reconsidered how business continuity scenarios would be tested and played out with market participants and other FMIs. Mr Elms acknowledged a comment from a member that the decision to convene CMBCG during the November incident had caused some concern and agreed that EUI would follow up with the Bank of England on the criteria to convene the CMBCG.

Mr Carty reiterated that Euroclear took the incidents very seriously and the User Committee would be kept informed of the actions being taken by EUI.

Mr Carty left the meeting.

6. CEO Update

Mr Elms presented the CEO update report, which was taken as read. He highlighted the impact of the recent incidents on EUI's performance balanced scorecard, which would not meet its 2020 target.

The Committee noted the CEO update.

Ms Mestdagh joined the meeting.

7. Post-Brexit CSD and Settlement

Ms Mestdagh presented an update on the proposed migration of Irish securities settlement from EUI to EB. She highlighted that there were just four months remaining to the migration date, with work progressing according to plan and all stakeholders actively engaged. The Committee noted the following matters:

- The Migration Guide had been published on 14 October 2020 with a further update expected to be published before Christmas;
- the Service Description for Investors had been published on 21 October 2020, with a further update to follow when further clarification had been received from the Irish Revenue Commissioners on certain tax matters;
- the registrars had signed contracts with EB and three of the four registrars had signed off the updated Service Descriptions;
- registrar testing was progressing according to plan
- optional client testing would be open from January 2021, with further information to be provided in December;
- EUI recognition as a third country CSD remained pending and Ms Mestdagh outlined the key steps to be taken before year end in order for EUI to continue to operate as CSD for Ireland after 31 December 2020. A member challenged the uncertainty and asked for more information on a potential plan B. Ms Mestdagh replied that the matter was outside EUI's control and drew the Committee's attention to Euroclear's 2018 Brexit paper which set out potential alternative options;

- EUI's request to the ECB to continue Euro settlement in Target2 after 29 March 2021 remained pending;
- Ms Mestdagh highlighted the migration process for issuers, noting that debt issuers could not rely on the Migration Act. A template circular had been released to equity issuers on 30 October 2020; this would require tailoring but issuers could start to organise their EGMs;
- the Irish Finance Bill had been published and was expected to go through the parliamentary process by the end of November 2020. It did not currently include stamp duty provisions due to time constraints;
- the Irish Brexit Omnibus bill had been published and was expected to go through Parliament in December 2020;
- the Steering Board had responded to a letter from the Irish issuers confirming that the migration deadline remained the end of March 2021.

Ms Mestdagh commented that, from an overall market perspective, the programme could be assessed with a light amber rating, noting that the majority of issuer EGMs were planned for January but that time was tight.

A member challenged the impact to investors of the CDI pricing for Irish securities following migration and also under the EB tariff. Ms Mestdagh replied that EUI had made investments to support the Irish CDI service (for example, tax services) and that international securities were more expensive to support than domestic securities. Nevertheless, EUI had reduced the custody fee on Irish securities held in EB compared to other international securities.

A member questioned the impact of EUI potentially losing the ability to settle in Euros following the migration of Irish securities to EB. Ms Mestdagh replied that analysis was ongoing, noting that the impact was dependent on client behaviour and how clients would decide to split activity between EUI and EB. Mr Miles added that CDI's had been priced on the basis that Euro settlement remained available and suggested follow-up discussions with clients to discuss their anticipated approach. He confirmed that EUI was already discussing this issue with the LSE.

There were no further questions and the presentation was noted.

8. Business Update

8.1 Business Strategy Update

Mr Miles presented an update on EUI's Business Strategy and the presentation was noted.

Mr Miles clarified that EUI's developments of the international service were not intended to directly compete with EB services. The Investor CSD model was established and worked well, with EB supporting European securities and DTCC for the US. EUI was focused on considering what other Foreign assets and operating models would bring benefit for clients in the UK market, especially following Brexit.

Mr Miles confirmed that client engagement would be key to the strategy development, and reiterated that the strategy was being built with client needs front and centre. A client advisory group was being established to validate EUI's strategic developments, which would include some members firms of the UK User Committee. Mr Miles emphasised that the strategy was evolving, that resilience continued to be a key priority and EUI would continue to engage and keep the Committee updated during 2021.

8.2 CSDR and Brexit Update

Mr Pugh presented the CSDR and Brexit Update. The Committee noted the update with no further comments.

8.3 CCSS Update

Mr Miles provided an update on the EUI project to re-source the CREST Courier and Sorting Service following expiry of the current agreement with FedEx/TNT. A centralised solution was considered to be the best solution overall, but EUI recognised that this had not been the preference of some, particularly Irish and regional clients.

Mr Rich joined the meeting.

9. EUI Cyber Update

Mr Rich presented an overview of EUI's cyber risk management framework and approach, which addressed a previous request of the Committee. This covered the cyber mission and strategy, and outlined the various national and international best practice frameworks deployed. Mr Rich also advised as to EUI's approach to threat intelligence and the importance of knowledge gathering, together with the delivery and governance models in place within EUI. The Committee noted the update with no further comments.

Mr Rich left and Mr Woods joined the meeting

10. Review of Criteria for Accepting Issuers and Participants

Mr Woods presented the review of criteria for accepting Issuers and Participants to the Committee and which highlighted the outcomes of the 2020 review of EUI's admission criteria, the changes to its admission process and EUI's internal governance and procedures in this regard.

11. Disclosure of Relevant Audit Findings

Mr Zapita presented the disclosure of relevant audit findings pursuant to CSDR Article 52, to inform the User Committee on audit findings related to the topics covered by its mandate, ensuring that the provision of such information did not give a competitive advantage to any Committee Members. Details were included therein regarding an internal audit of the client admission, administration and support processes, together with the findings, and progress update from EUI's management.

12. Effectiveness Review

Members were reminded that the 2020 Committee Effectiveness Review had recently been launched and were encouraged to return their evaluation forms to the EUI Corporate Secretariat team.

13. 2021 dates

The 2021 dates were noted.

14. AOB

It was agreed to book a provisional meeting for December, to be convened in the event that the Irish migration was not proceeding according to plan.

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

Date of Next Meeting – 26 January 2021

Signed: David Gaselee