

## PUBLIC

**Minutes of the Meeting of the UK User Committee of Euroclear UK & Ireland Limited  
("UK UC" or the "Committee")  
held on 23 September 2020 at 13:30pm  
by Teleconference\***

Present: Marye Humphery - Chairperson  
Richard Barber - Citibank Europe Plc  
David Gaselee - Barclays  
Tony Jones - JP Morgan  
Jason Phillips - DMO  
Richard Turrell - LCH.Clearnet

Pending  
Members: Neil Foley - Bank of America  
Nigel Jenkinson - SS&C  
Louise Kingswell - HSBC  
Ross Paterson - Hargreaves  
Hannah Reynolds - Bank of England  
Michael Sansom - Computershare (*apologies*)

Apologies: Chris Elms - Euroclear UK & Ireland  
David Berry - Brewin Dolphin  
David Daniell - UBS

In attendance: Barbara Atim; Michael Carty; Ian Dowglass (item 11); Jennifer Parker (Secretary); An Mestdagh (item 8); Leanne Middleton (item 7.2); Paul Miles; Charles Pugh; Mark Sims (item 10.4) 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.

### 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 6 May 2020

The Minutes of the meeting held on 6 May 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.

### 5. Committee Membership and Changes

At the last meeting of the Committee, it had been noted that several members of the Committee had stepped down and that the composition of the Committee would be reviewed to ensure it continued to have a balanced and experienced representation across the sectors.

Ms Parker presented a paper setting out the proposed changes to the composition of the Committee to fill the vacancies that had arisen. She noted that Judy Price had also subsequently stepped down from the Committee, and confirmed that a further representative of the retail segment would be proposed for appointment in due course.

A Committee member suggested that retail segment representation should include a retail broker that supported CREST personal membership and Ms Parker confirmed that this would be considered in relation to next appointee from the retail segment. In response to a question raised by a Committee member regarding the several vacancies arising on the Committee, Ms Parker confirmed that changes occurred simultaneously but were due to changes in different individual circumstances.

The Committee considered the proposed changes and, following discussion, the Committee **AGREED** and **APPROVED** the appointment of each of the following individuals (a "New Member") to the Committee:

- Louise Kingswell, HSBC, as a representative of the investment banking segment;
- Hannah Reynolds, Bank of England, to replace Mark Louis who recently stepped down from the UK UC;
- Neil Foley, Bank of America as a representative of the investment banking segment;
- Nigel Jenkinson, SS&C as a representative of the funds segment;
- Ross Paterson, Hargreaves Lansdowne as a representative of the retail segment; and
- Michael Sansom, Computershare as a representative of the registrar segment;

The Chair invited each New Member to introduce themselves and notify the Committee of the sector they would be representing.

## **6. Terms of Reference Updates**

Ms Parker informed the Committee that minor amendments had been proposed to the Committee's Terms of Reference to address feedback received from the Bank of England (the "**BoE**"), as part of its review of EUI's CSDR submission. Ms Parker noted that the EUI Board had approved the amended Terms of Reference at its meeting on 14 July 2020, which were now presented to the Committee for adoption.

There being no further comment, it was **AGREED** that the Terms of Reference, as presented, be and are hereby **ADOPTED** as the Terms of Reference of the Committee. Ms Parker confirmed that the Terms of Reference would be published on the EUI website.

## **7. CEO Update on recent system performance and relevant audit findings**

Mr Miles welcomed Mr Carty, the incoming EUI CEO to the meeting and gave apologies from Mr Elms, EUI's Interim CEO, who was unable to join the meeting. Mr Miles provided a brief overview of the CEO Update on behalf of Mr Elms and highlighted the following matters:

- the BoE had declared EUI's CSDR application complete on 14 August 2020 and had entered into the 3 month consultation period. CSDR would be covered further later in the meeting;
- Mr Miles provided an update on Covid-19 and its impact on EUI. He confirmed that, in line with government guidelines, the majority of staff continued to work remotely and highlighted EUI's continued focus on staff welfare.

Mrs Middleton introduced herself as EUI's Chief Operating Officer and noted that she would present an update on the operational incidents of 11 and 14 September 2020 as part of the CEO Update. The CEO Update was noted and Mrs Middleton provided a brief summary of the system performance and availability report for the period. She confirmed that two incidents in May and June relating to the Single Settlement Engine ("**SSE**") had been fixed in June.

Ms Middleton continued to provide an update regarding the outages on 11 and 14 September 2020. On Friday 11 September, there had been an issue in CREST during the second settlement cycle. The internal investigation highlighted that the issue was believed to have been caused by an internal reconciliation error due to connectivity issues between two CREST system components. The IT teams continued further investigation around the issue and worked to resynch the data between the two system components throughout the day. However, this was not completed in time, so the non-standard CREST closure ("**NSCC**") protocol was invoked.

Ms Middleton advised EUI continuously engaged with the market during the incident. Two meetings were held with the CMBCG, firstly to brief the market and inform the market of the potential triggering of NSCC and secondly to confirm that the NSCC was being invoked.

Mrs Middleton advised work continued over the weekend in order to close the second cycle, run the CREST diary and get the CREST system ready for Monday's opening. Mrs Middleton added EUI continued to provide briefings over the weekend to the market and continued client liaison. In

addition, a further CMBCG meeting was held on Sunday ahead of the market opening on Monday morning.

Mrs Middleton advised the system opened as usual on Monday morning, however there were two further issues experienced during that morning. Mrs Middleton confirmed that neither issues was a re-occurrence of the issues on Friday and she provided an overview of these operational issues. From 11:15am onwards the system ran as normal with no further operational incidents; a small number of diary extensions at the request of the clients were granted.

Ms Middleton advised there were two additional CMBCG meetings held on Monday. The first meeting addressed the current issues and to warn of a potential further invocation of the NSCC if issues continued. The second meeting at 3pm provided an update to the market to confirm no further outages but to advise that NSCC remained available as a contingency.

Ms Middleton provided details of the next steps. A full review had commenced to ascertain the root cause and with a review of related processes. A further update would be provided to the next meeting of the Committee.

Ms Middleton welcomed questions from the Committee and the Committee discussed the incidents at length. The following key points were noted:

- EUI was focused on identifying the root cause of the incident. A fix had been identified and a number of interim remediation steps had been undertaken to prevent or mitigate any potential recurrence of the issue before the permanent fix could be released;
- remote working did not exacerbate EUI's response times to the incident;
- the lessons learned included:
  - the importance of timely and informative communications with clients and the market to ensure clients understood the impact of an incident, especially at the outset of an incident;
  - a requirement for greater market awareness and market testing of NSCC procedures;
- earlier mobilisation of teams for NSCC would have been welcomed by several firms
- the market/underlying clients would expect EUI/Euroclear to provide greater clarity on potential liabilities. Mrs Middleton indicated that it was too soon to discuss such matters and EUI would provide a further update to the market when it had completed its incident review;
- concern was expressed regarding the Operational Resilience implications for regulated firms. Mrs Middleton noted that EUI was subject to the same Operational Resilience requirements and confirmed that the incident review would also consider other "what if" scenarios;
- the preliminary incident report would be available within 10 days of the incident; the full incident review would take more time. The preliminary incident report would include details of the remediation steps referred to above;
- the client and market communications were overall effective and well-managed, subject to the Committee's remarks that initial communication at the onset of the incident was not clear on the severity of the incident (and noting that the severity was also not apparent initially to Euroclear);
- the incident had been escalated to senior levels in Committee members' firms, who were expecting clear follow up and explanation from EUI/Euroclear.

Mrs Middleton advised a further update would be provided to the Committee at its November meeting:  
**ACTION Mr Elms.**

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

*Mrs Middleton left the meeting and Ms Mestdagh joined the meeting.*

## **8. Post-Brexit CSD and Settlement – Update from Market Implementation Group ("MIG") on Longer Term Settlement**

The Committee considered the *Irish Securities Settlement Post Brexit* Update paper and the following matters were noted:

- Work progressed as planned for the Irish CSD migration to Euroclear Bank ("EB"), with migration scheduled for the weekend of 12 March 2021. The legal date and time of migration would be 00.01h on 15 March 2021; operationally, migration would start following successful reconciliation on 12 March 2021. Ms Mestdagh highlighted the provisions in the Migration Guide relating to CCP transactions with trade dates of 11 and 12 March 2021;

- A further update of the Migration Guide providing instructions for each stakeholder would be published in late September/early October. No substantive changes were foreseen and changes would be clarificatory only ;
- An update to the Service Description for Investors was also planned for late September. The extent of changes would depend on the outcome of discussions with the Irish Revenue Commissioners, and as feedback was pending on some tax issues, it was likely that a subsequent update would also be required;
- EB held a webinar on 23 and 30 July on the voting process on Irish securities post migration for the Investors and Issuers. Both webinars were well attended and all queries regarding the process were clarified;
- EB internal functional testing had commenced early August and continued according to plan. EB Registrars SWIFT connectivity testing had started;
- EUI was required to obtain Third Country CSD Recognition by 31 December 2020 in order to continue to offer services in relation to Irish securities and the status of EUI's recognition application was noted;
- EUI would continue to provide Euro settlement services until 29 March 2021 in line with the current contract with ECB and discussions were ongoing regarding the future of EUI's Euro settlement services;
- Issuers continued to progress with the inclusion of migration resolutions in their forthcoming AGMs/EGMs, although progress had been impacted by uncertainties on certain US securities laws and tax considerations. The Steering Board had received a letter from some large Issuers, to request a three months delay for the migration. This has been discussed at the recent Steering Board meeting and a response would be provided;
- There was close cooperation with DBEI on revised legislative changes required, which were progressing well;
- The Stakeholder updates were noted.

Ms Mestdagh closed by presenting a summary of the Next Steps and confirmed that the migration was on track overall.

## **9. Business Strategy Update**

Mr Miles provided a brief update on EUI's Business Strategy post-Brexit. He confirmed that EUI was seeking to build a closer dialogue with clients and other stakeholders and noted that a number of key areas had been identified for further discussion. Areas of focus would include:

- continued improvements to the core business, including operational resilience;
- assessment of EUI's technology and communications strategy;
- continued efforts to remove paper from the market where possible in anticipation of future moves towards dematerialisation;
- the CREST International Service;
- potential opportunities linked to the RTGS rewrite.

The Chair welcomed Mr Carty and invited him to introduce himself. Mr Carty confirmed that he looked forward to working with the Committee on EUI's Business Strategy, with resilience and EUI clients being core focus areas for him. The Committee members welcomed Mr Carty.

The Chair invited feedback from the Committee members. A Committee member noted that CREST had introduced Dividends in CREST functionality some years ago and enquired on usage of the functionality, amid the ongoing prevalence of dividend cheques and in light of the current pandemic. Mr Miles replied that this functionality was not currently mandated in CREST, but acknowledged that the ongoing use of cheques was an attention area for the Market.

Mr Miles confirmed a detailed Business Strategy update would be provided at the next Committee meeting. Mr Miles to present a further update at the November meeting. **ACTION: Mr Miles**

## **10. Product and Service Update**

### **10.1 Future of the CREST Courier and Sorting Service (CCSS)**

Mr Miles gave a brief update regarding the CREST Courier and Sorting Service ("CCSS"). Following the announcement of the termination of the TNT service with effect from 31 December 2020, he advised that EUI had engaged with the market to put a revised model in place. There had been feedback from the Irish and UK regional firms on the removal of local counters but the core proposal

would remain unchanged. Mr Miles confirmed that EUI would continue to work with the firms to develop the next phase of the revised CCSS model.

### **10.2 International Service – Rationalising CSD Links**

Mr Miles provided a brief update to the Committee regarding the rationalisation of the CSD link for SIS securities, and its move to EB. This had been implemented in time for SRDII live date and following two smooth migrations. Settlement flows remained unaffected, and the technology builds had been a success. Mr Miles confirmed that work continued on maturing the ongoing relationship with EB to support EUI's investor CSD services.

### **10.3 CSDR and Brexit Update**

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

- The BoE had declared EUI's CSDR application complete on 14 August 2020. There was now a three-month consultation period between the BoE and other regulators, ending on 14 November 2020;
- Settlement Discipline - Mr Pugh reminded the Committee of the HMT announcement in June 2020 that the UK would not apply the CSDR Settlement Discipline regime. He noted EUI's view that, even if the transition period were to be extended by a year, this position was not altered by the subsequent announcement by ESMA that CSDR implementation of both settlement discipline and buy-in requirements would be postponed until February 2022. Mr Pugh noted that the existing CREST settlement discipline regime would continue to operate. There was ongoing discussion with the BoE and HM Treasury as to the future of the UK Settlement Discipline regime and EUI was now engaging with the market, including via the trade associations and bilateral client meetings, to consider what a new regime should look like.
- Brexit - Mr Pugh briefly considered the impact of Brexit. He noted that EUI required Third Country CSDR Recognition from 31 December 2020 and provided an update on the process being followed by EUI. He also reminded the Committee that EUI's current agreement with ECB to provide settlement in Central Bank Euros expired on 29 March 2021.

The Committee noted the update with no further comments.

### **10.4 SRDII Update**

Mr Sims introduced himself as EUI's Chief Financial Officer. He provided a brief update to the Committee on SRDII. He advised that EUI had implemented SRDII on 3 September 2020, with a tactical solution launched to support the International service and covering proxy voting, meeting requests and international disclosure. This was an interim solution delivered in partnership with Broadridge and further updates would be made to the service over the coming months as part of EUI's IT roadmap.

*Mr Dowglass joined the meeting*

## **11. AOB**

Mr Dowglass provided a brief update to the Committee regarding the revision to the Default Guidelines in accordance with the CSDR requirement. He confirmed that the Default Guidelines as included in the pack were now published on the EUI website.

Mr Dowglass confirmed desktop testing in line with the Default Guidelines was conducted in 2019 as part of EUI's Annual Business Continuity ("ABC") testing. Further internal testing was undertaken in Q2 2020 with additional testing to be conducted later in the year.

*Mr Dowglass left the meeting*

Ms Parker confirmed that the Committee effectiveness review questionnaires would be issued in Q4 2020 and following analysis, the results report would be presented in Q1 2021.

Ms Parker noted she would arrange the dates shortly for the 2021 Committee meetings.

Ms Parker encouraged the Committee for suggestions on agenda items for the November meeting and subsequent meetings and confirmed a further update on the Incident would be presented at the

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November meeting. The Chair asked the Committee members for suggestions. A Committee member proposed that Mr Miles provide a strategic review plan in relation to International services. Mr Miles to provide a plan of the strategic review at the January 2021 meeting. **ACTION: Mr Miles**

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

**Date of Next Meeting – 18 November 2020**

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Signed: Marye Humphery