FITCH ASSIGNS EUROCLEAR INVESTMENTS' DATED HYBRID BOND 'A+(EXP)'

Fitch Ratings-London-22 March 2018: Fitch Ratings has assigned Euroclear Investments S.A.'s (EINV; AA/Stable/F1+) upcoming dated hybrid notes an expected long-term rating of 'A+(EXP)'. At the same time, the agency has assigned an expected long-term rating of 'AA(EXP)' to EINV's planned senior unsecured bond issue, in line with EINV's outstanding EUR600 million unsecured notes (XS1529559525).

Final ratings on the notes are contingent on the receipt of final documents conforming to information already received.

Luxembourg-based EINV is fully-owned by Euroclear plc, the UK-incorporated and Switzerland-domiciled holding company of Euroclear, one of the largest settlement and post-trade processing companies globally. EINV is the 99.9% owner of Belgium-based Euroclear SA (ESA), which in turn owns Belgium-based Euroclear Bank SA (EB; AA+/Stable/aa+), the group's international central securities depository as well as domestic central securities depositories in France, the UK, the Netherlands, Belgium, Sweden, Finland and Ireland.

EINV's and EB's issuer ratings are unaffected by this rating action (see 'Fitch Affirms Clearstream Banking and Euroclear Bank; Outlooks Stable', dated 27 September 2017, for EB's and EINV's key rating drivers and sensitivities).

Euroclear announced today that it intends to issue senior unsecured and dated hybrid notes out of EINV. According to management, the minimum issue size for both senior unsecured and hybrid notes is EUR300 million each with the total issuance volume not exceeding EUR700 million. Proceeds will largely be downstreamed to EB and to a lesser extent ESA to improve the group's capital structure in light of anticipated more stringent regulatory requirements regarding capitalisation and recovery potential. Both senior unsecured and dated hybrid notes will be downstreamed to EB and ESA in a format that ensures compliance with FMI recovery plan and potential minimum requirements for own funds and eligible liabilities (MREL) requirements.

KEY RATING DRIVERS

SENIOR DEBT

The upcoming senior unsecured debt is rated in line with EINV's Long-Term IDR as they are plain vanilla direct, unsubordinated, unsecured and unconditional obligations of EINV and do not benefit from any binding guarantees by EB or any other operating entity.

The one-notch difference between EINV's and EB's Long-Term IDRs principally reflects that EINV is not under direct supervision of Euroclear's lead regulator, the National Bank of Belgium (NBB). In our view, this gives Euroclear's management somewhat more flexibility in EINV's capital and liquidity planning compared with the group's directly regulated entities. EINV's common equity double leverage ratio was around 104% at end-2017 (unaudited), comfortably below Fitch's typical threshold of 120% for adding an additional notch for high double leverage. Based on management projections that Fitch deems achievable, both interest cover and principal repayment capacity at EINV (on a standalone basis) remain adequate during the tenor of the bonds. This also supports limiting our notching to one notch.

DATED HYBRID SECURITIES

We have notched the expected rating for EINV's upcoming dated hybrid notes twice from EINV's Long-Term IDR. Fitch has also assigned 50% equity credit to the notes. Because EINV is as a legal entity not subject to direct prudential supervision by either the Luxembourg regulator or the NBB, Fitch applies corporate notching criteria ('Non-Financial Corporates Hybrids Treatment and Notching Criteria').

The notching between EINV's Long-Term IDR and the expected hybrid rating primarily reflect the notes' deeply subordinated status and going concern loss absorption (in the form of fully discretionary coupon deferral). Fitch has limited the differential to two notches due to the absence of more aggressive forms of loss absorption such as easily activated mandatory deferral mechanisms, permanent write-down or easily activated mandatory conversion triggers.

The assigned 50% equity credit primarily reflects the notes' deeply subordinated status, effective permanence, absence of any material covenants, step-ups, look-back provisions or short-term call dates (the first call date is in 2028) and unconstrained and long-term coupon deferability. Our view on the permanence of the notes is underpinned by the issuer's public statement to only replace the notes with instruments with equivalent terms.

As cumulative instruments, the notes do not qualify for 100% equity credit.

RATING SENSITIVITIES
SENIOR DEBT
The expected senior debt rating is primarily sensitive to a change in EINV's and ultimately EB's Long-Term IDR. EINV's Long-Term IDR is sensitive to material changes in Euroclear's dividend upstream policies negatively affecting EINV's interest cover and repayment capacity during the tenor of the bond.

The tenor of intragroup loans - if any - exceeding the maturity of EINV's senior bond issue (reducing EINV's repayment capacity at maturity of the bonds) or a down-streaming of proceeds in the form of common equity (increasing EINV's common equity double leverage) would also be negative for EINV's IDRs.

DATED HYBRID SECURITIES
Similar to the senior debt rating, EINV's corporate hybrid rating is principally sensitive to a change in EINV's and ultimately EB's Long-Term IDR. In addition, changes to the terms of the notes which increased the risk of going concern loss absorption, e.g. an easily triggered mandatory deferral mechanism, could lead to wider notching and a hence a downgrade.

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Applicable Criteria
Exposure Draft: Bank Rating Criteria (pub. 12 Dec 2017)
https://www.fitchratings.com/site/re/904081
Non-Financial Corporates Hybrids Treatment and Notching Criteria (pub. 27 Apr 2017)
https://www.fitchratings.com/site/re/896881