

PUBLIC

**Minutes of the Meeting of the Irish User Committee
of Euroclear UK & Ireland ("EUI")
("Irish UC" or the "Committee")
held on Tuesday, 11 February 2020 at 11:00am
at the offices of**

National Treasury Management Agency, Treasury Dock, North Wall Quay, Dublin 1, Ireland

- PRESENT:** Brian Healy (Chair); Jai Baker; Neil Colgan*; Ronan Deasy*; Stephen Dwyer*; Albert Farrell; Niall Harrington*; Stephen Judge; Joe Molony; Darren Murray; Aidan O'Carroll; Mary Poole; Neil Sharp*; Peter Stewart*; David Trost.
- APOLOGIES:** Robert Davis; Sinead Kelly; David Todd.
- EXTENDED INVITEES:** David Fitzgerald*
- IN ATTENDANCE:** Sue Concannon; Chris Elms; Deirdre Feely (Secretary); Paul Miles; Charles Pugh; Christopher Twemlow; An Mestdagh.

* Attendance by telephone

1. 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.

In relation to the closed session, numerous 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, but the main aspect of the closed session would be in relation to the formalities in providing the non-binding opinion to the EUI Board, the preparation of which had been agreed at the previous meeting 8 January 2020. In this regard, all Committee members would participate in this discussion.

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

The Euroclear representatives, included as "In Attendance" in the list of attendees, left the meeting.

2. Tariff Review – Non-Binding Opinion

The Committee proceeded in **closed session** to consider the provision of the non-binding opinion to the EUI Board, in furtherance of the tariff review discussions to date.

Following completion of the closed session, the Euroclear representatives, re-joined the meeting.

The Chair confirmed that the Committee had agreed that the letter included in the pack, being the non-binding opinion, be taken as final, signed by the Committee Chair and provided to Mr Robert Hingley, Chairman of the EUI Board.

Mr Miles confirmed next steps and timings, with the tariff review to be considered at the forthcoming EUI board meeting of 24 February 2020. Consideration of the EUI Board at that meeting was expected to be definitive on both the review and its implementation. There would be feedback to the Committee as to the EUI Board's decision as well as a formal response to the non-binding opinion.

3. Welcome from Chair and Market Update

The Chair proceeded to welcome the Committee to the meeting and to provide a general market update, while noting that this was the first Committee meeting post-Brexit. In doing so, he noted the significance of the results of the recent Irish General Election and how long it may take to form a Government. Further, while a caretaker Government remained, they held more limited powers to pass legislation, which could potentially present complications for the Irish migration.

4. Minutes

The Minutes of the meetings as held on 23 October 2019 and 8 January 2020 were **APPROVED** unanimously, and were subsequently signed by the Chair.

5. Matters Arising

The Committee **AGREED** to close the items proposed for closure. There were no open actions.

6. Post-Brexit CSD and Settlement

Update from Market Implementation Group ("MIG") on Longer Term Settlement Solution

Ms Mestdagh advised that the Irish migration project remained on track, with the Euroclear Group and other key stakeholders having met the necessary project milestones to date. However, she also highlighted important milestones to be achieved in February and March, the generally heightened level of engagement and knowledge in the market while noting that there remained scope for increased engagement by some market participants given the tight project timelines. She confirmed that Euroclear's system development had started and indeed, remained on schedule.

Ms Mestdagh confirmed that the Migration of Participating Securities Act (the "**Act**") had been signed into law on 26 December 2019. This would enable Issuers of domestic securities to migrate without the requirement for individual schemes of arrangement ("**SoAs**"). There was still much work to do on the Issuers side and for which further legislative changes would be required, and indeed, prior to the start of the 2020 AGM season for the EB operating model after the migration process. In this regard, work continued with the Department of Business, Enterprise and Innovation (the "**DBEI**") to progress the draft legislation, although this could not be enacted until the new Government was formed.

Ms Mestdagh noted that Issuers would need to arrange for a circular to shareholders as to the current status, and with consensus in the legal community that it was up to each respective Issuer and on the advices of their legal advisors as to whether they would proceed with the current round of AGMs, or await further clarity and defer to a later round of EGMs.

Ms Mestdagh confirmed that the updated service description for Euroclear Bank ("**EB**") Participants had been published on 10 January 2020, describing the majority of processes and the SWIFT instruction formats. The remaining services, to include voting and general meetings, would be included in the final version planned for release later in the month. The service description for Registrars would also be published in February, to include the baseline of service. Discussions were ongoing with the Registrars in a number of areas, including how the voting process would work in practice. Ms Mestdagh advised that the service description once published would outline the roles, responsibilities and processes at that point in time, and while there was flexibility to update subsequently, this would not be change of a fundamental nature and any such change would be assessed on a case by case basis.

Ms Mestdagh reported that the definition phase of the Euroclear IT project had been completed. It would be possible for the Registrars to make changes to the SWIFT messages, but no further material changes would be possible, as they would compromise the project timeline.

With regard to the Issuer community, Ms Mestdagh advised that Euronext were arranging an update on 25 February 2020. There had further been an information sharing session with the Revenue Commissioners ("**RC**") regarding real-time dividend withholding tax ("**DWT**") reporting. She confirmed that EB, and all other market responses, had formally objected to the real-time reporting consultation proposal regarding Irish DWT, given there was no realistic timeline, the complexity of the proposal and the incompatibility of such a change with CSD migration. There was widespread market opposition and the matter had been escalated to the Department of Finance ("**DoF**"), as posing a serious risk to the migration timeline and for which postponement was being sought.

Ms Mestdagh noted that this was a market wide discussion with the RC. A Committee Member confirmed that the RC had engaged with the Registrar community on the matter and wherein the risk to the migration project was reiterated. It was unclear how the RC would respond. This was further discussed by the Committee, noting that there had been good interaction with the DoF and they were fully aware of the issues. Ms Mestdagh stated that further discussion was required across the market to fully understand the implications if the consultation would be implemented according to the timeline envisaged by the RC (January 2021). There could further be other policy or political priorities over the coming months, such as the formation of the new Government, etc. This collectively presented challenges to the migration project.

Ms Mestdagh advised that the Stamp Duty offering had been finalised with the RC, and approved by the CCPs and AFME. Response on behalf of the Broker community had been received to clarify that

Stamp Duty would be paid on the actual settlement date, as opposed to the intended settlement date. The result of such approach would be a significant reduction in Stamp Duty reclaims. This would next be communicated to the UK Broker community and AFME to ascertain agreement.

With regard to the SRDII meeting/voting services offering, Ms Mestdagh confirmed that EB Nominees Limited would be the legal shareholder on the register. They would provide EB Participants with a facility to vote electronically to include withholding of vote, physically attend the meeting, appoint proxies for voting, etc. This was subject to the Issuers accepting electronic attendance and voting cards. Ms Mestdagh proposed a change of calendar to make this process more efficient, i.e. the record date needed to be at least three business days prior to AGM/EGM deadline date.

Ms Mestdagh advised that the migration workstream remained on track for publication in Q1 2020. This would consist of a single document for the migration plan. In respect of equities, migration was expected the weekend of 12/13 March 2021. The DoF and the Central Bank of Ireland ("CBoI") had each confirmed that the migration of Irish corporate securities would take place irrespective of the political landscape (e.g. Brexit).

The Committee continued with discussion as to the market's perception of the project's progression and whether it remained on track. Ms Mestdagh addressed the Committee's queries in this regard, noting that the outstanding matters could be distinguished as relating to irregular transactions (to include takeover provisions), as opposed to day to day shareholder processes, which had been finalised. There was also continuing discussion among the Brokers and Registrars regarding the treatment of mark ups/mark downs by Euroclear.

The Committee agreed that the project was progressing well, with a limited number of outstanding matters to be clarified. These included takeovers; nationality declarations; and finite AGM matters to include voting. It was noted that market participants had been heavily engaged with EB as to system requirements to get the main building blocks in place, but it was of importance that there was certainty around any system add-ons, particularly from the Issuers' perspective.

The Chair summarised the discussion noting that overall, the migration project remained on track, with certain elements trending as red and noting that these were fewer in number than previously. He commended the extent of market engagement to get the project to its current status. The service descriptions would be signed off shortly, and legislatively, there had been a good result in the sign off of the Act, negating the need for Issuers to enter into SoAs. The Chair noted that while the AGM season was imminent, some Issuers may decide to defer to a later EGM cycle as an interim solution, notwithstanding this may not be the preferred avenue.

The Committee agreed that the project would remain on a challenging timeline to completion, but it was currently on track and achievable. There should continue to be full market engagement to ensure that all stakeholder requirements were sufficiently addressed. A Committee Member noted it was difficult however for the Issuer/Registrar community to ascertain costs until the full specifications were available. This community remained supportive and fully engaged, but had concerns in this regard.

Ms Mestdagh advised that most flows had now been developed, with specifications being finalised where not already fully defined. She provided a further synopsis as to the status of the overall project. One point of contention was the treatment of solely London listed Irish equities through the Stock Exchange and for which there was a variance of opinion between the LSE, who had advised that European securities solely listed on a non-Euro exchange did not require migration; and Euroclear and Euronext. ESMA had been contacted to provide clarity on the matter and confirmed that European corporate securities need to be issued in an EU 27 Issuer CSD, or in a CSD which had received equivalence recognition. In this regard, Ms Mestdagh reconfirmed that all Irish corporate securities currently held through EUI required migration to EB.

ACTION: Ms Mestdagh agreed to share the ESMA confirmation with the Committee – **Ms Mestdagh**

The Committee continued with a discussion regarding applicability of third country equivalence and the treatment of companies with US based securities. Mr Twemlow provided details of EUI's position on this as well as on the views of European Authorities in this regard.

7. Shareholder Rights Directive II (“SRDII”) Update

Mr Twemlow provided the SRDII Update to the Committee. He provided a synopsis of SRDII and the main focus of EUI in addressing mandatory items required for compliance by September 2020. He distinguished between the domestic CREST service (UK and Ireland), and the international service which included securities through links and which would include Irish securities post-migration in March 2021. To facilitate compliance, there were limited changes required from a domestic perspective. In respect of the international service, ISO 20022 capabilities were required to meet client expectations.

Mr Twemlow advised as to timing complexities for the SRDII project and implementation of the Directive into domestic law in the UK. There was further clarity required as to implementation steps in Ireland.

With regard to logistical implementation, Mr Twemlow provided details under each as follows:

Meetings and Voting

- *Domestic Service:* Given there was a direct relationship between the Issuers and Shareholders (as a matter of UK law), and no intermediary relationships, ISO 20022 requirements did not apply. Compliance in respect of providing proxy voting messaging and notifications of corporate actions for UK and Irish securities would be facilitated through existing FT/GUI based messaging. There would be a number of changes to announcements/proxy vote instruction details and the introduction of vote receipt confirmations.
- *International Service:* ISO 20022 messaging capability would be provided to CREST Participants, with the underlying working yet to be confirmed.

Corporate Actions Notification: In respect of corporate actions, the existing process of notifying Participants via the CREST system would continue for both the domestic and international services. EUI were working on minor enhancements in this regard to ensure alignment with SRDII.

Shareholder Identification: The status quo would remain under the domestic service. EUI intended to offer capability for securities in the international service, with ISO 20022 compliant messaging. The underlying details of such service offering had yet to be confirmed. Post-September 2020, any subsequent further enhancement would be subject to client demand and consultation.

Reporting as to next steps, Mr Twemlow advised that wider market engagement was planned. An EUI white book and data exchange manual was being targeted for publication in late March/early April 2020. Further detail regarding the changes to the international service and aspects of ISO 20022 messaging would be provided to the market. Finally, the implementation schedule would be published in due course, to include testing windows and the service go-live date, to ensure compliance by the 3 September 2020 deadline.

The Committee noted the fundamental nature of some of the changes required by SRDII and the level of commitment required by all market participants impacted.

8. CEO Update

Mr Elms presented the CEO Update to cover the period 1 October 2019 to 31 December 2019. End of year figures demonstrated 2019 BSC uptime of 99.2%, representing a marginal increase as against the prior year and ahead of target. EMX/funds also ran above target at 99.84%. Service resilience at end of year stood at 100%. All benchmark metrics remained above target YTD.

Mr Elms provided details of the BSC impacting system outages in November and December and the steps taken by EUI in respect of each. In relation to the two outages due to the software faults in the single settlement engine (“SSE”), root cause analysis remained ongoing and following which further detective controls would be built into the SSE.

Looking to 2020, Mr Elms noted that from a business perspective, the continued prevalence of regulatory change, to include CSDR and settlement discipline (“SD”) would persist. The CSDR licence was expected over the coming months and for which work continued with the Bank of England (“BoE”). There would be focus on business development within EUI over the course of the year, to include client service enhancements and development of the collateral and funds offerings.

EUI would engage across the market and with the User Committees, with such consultation to assist in formation of strategy.

9. 2019 Client Satisfaction Results ("CSR")

Mr Miles presented the 2019 CSR, which represented a positive result for EUI. The overall score had increased by one percentage point. The following were the main areas for which EUI would engage further with clients:

- (i) EUI's overall business strategy and business developments, to include those mandatory, as well as investments which would bring value to the market. EUI had new opportunities to develop its local strategy as part of the wider Group, and in conjunction with strategy development at Group level; and
- (ii) Interface development, updating of front-end capabilities and the related enhancements to the overall CREST system. This would include development of digitisation capabilities as well as providing increased interface connections for clients. There would be considerable market engagement to advance these elements, and with operational discussions to be held at senior management level to ensure developments were aligned to the extent possible with strategic change initiatives across the client base.

The Committee noted the positive results and the consistency of themes and areas of focus from the CSR.

10. Product and Service Update

Mr Miles confirmed that a more comprehensive presentation regarding EUI's business strategy would be provided at a subsequent meeting, beyond the points mentioned by Mr Elms earlier in the meeting.

The Future of the CREST Courier and Sorting Service ("CCSS")

Mr Miles advised that the contract with TNT (now owned by FedEx) would expire at the end of 2020, following receipt of notice that TNT would cease to provide the CCSS service and given that the bespoke service provision no longer aligned with the overall FedEx business strategy. A workshop had been held with Brokers and Registrars on 5 February 2020 to provide clarity regarding the solution by end of 2020. He clarified that this would not be the final solution.

Mr Miles noted that of importance was the fact that CCSS volumes continued to decrease and had become loss making for EUI. The overall solution by end of year would operate as a precursor to future dematerialisation, which was required under CSDR. Mr Twemlow clarified that due to timings, full dematerialisation functionality would not be in place by the time of CCSS cessation. The Committee continued with discussion in this regard. The Chair noted that there had been strong responses from the CBoI and DoF that the CSD migration should not be complicated by a dematerialisation project, and to keep them in parallel. While the dematerialisation project had not progressed to the extent expected, a short-term tactical solution would be required in the interim.

Mr Miles advised that the interim tactical solution would be in place by the end of 2020, following risk assessments for each organisation and cognisant of the future requirements for dematerialisation. With the Irish migration to take place in March 2021, Mr Twemlow reminded the Committee that the EUI interim solution would only be required for a brief period in Ireland in any event.

The Committee continued with discussion as to industry leadership for the overall dematerialisation project going forward, with Euronext probably best placed to lead and with appropriate input across the industry, particularly from the Registrar and Issuer community. However, this was not a decision for the Committee to take.

With regard to the legal issues, Mr Twemlow advised that he had not yet seen the legal proposal regarding transfer of title and how this would work in practice. The Committee noted that the changes inherent for paper certificates for Irish securities remained under active discussion by a sub-group of the MIG. Further, given the current Government status, dematerialisation would not be an item of priority.

International Service – Rationalising CSD Links

Mr Miles outlined the planned changes to EUI's International Service in relation to the rationalisation of the CSD Link for SIS securities, moving to EB, and the planned publication of further details in this regard was duly noted by the Committee.

ACTION: It was agreed to include a further update on these matters on the agenda for the next meeting – **Mr Miles**

11. CSDR Update

Mr Pugh provided an update on CSDR. EUI continued to close off open items to enable the BoE to declare the CSDR application complete, following which authorisation was expected to follow within six months.

With regard to the timelines for the implementation of CSDR's new settlement finality and buy-in regime, Mr Pugh stated this was now expected to be delayed to 1 February 2021, following the ESMA report published the previous week (although this was pending EU Commission endorsement and EUI Council and Parliament approval). Prior to the publication of this report, AFME and other European trade associations had issued a letter to the EU Commission and ESMA regarding SD and the buy-in regime and the timings for implementation. However, it was yet to be determined if this letter would be taken into account.

In relation to CCPs, Mr Pugh advised that discussions continued among industry bodies regarding Article 19 and penalties in respect of CCP transactions. The EU Commission had rejected previous EACH proposals. However, ECSDA and EACH had a potential way forward to implement Article 19 in the most efficient way and whereby penalties would be dealt with within the CCPs, for which Mr Pugh provided details.

From an EUI perspective, Mr Pugh confirmed that EUI's system development and process changes remained on track. The November 2019 software release had been successful. He outlined forthcoming mandatory changes for the start of May, and the related testing period. More generally, work continued on the local aspects of the SD project, and with development of the settlement penalties engine functionality continuing at Group level, both utilising the ECSDA framework as a baseline. Link testing with the Group multimarket data layer was almost complete.

Mr Pugh provided an update as to recent Brexit developments. The UK departed from the EU on 31 January 2020, with the transition period to end on 31 December 2020. Any EU Regulations not in force would not be transposed into UK law automatically and it would then be a choice for the UK Government whether to do so. There was speculation that SD would be enacted, although it was unclear as to the status of buy-ins, and it would be towards end of 2020 before there would be clarity.

Mr Pugh ran through the settlement penalties change timeline, based on the 1 February 2021 go live date, yet to be fully confirmed. He advised that all CSDR SD reporting would not be facilitated via the CREST system. Internal work had commenced on building the client on-boarding process for reporting. Mr Pugh outlined the forthcoming market engagement in this regard, with details on reporting formats due to be published shortly.

Mrs Concannon queried whether in EUI's discussions with market participants, clients had started to calculate settlement penalties or if they remained reliant on EUI to give an indication. Mr Pugh confirmed that manual calculations had been conducted in February 2017 and the market was essentially in the same place. These calculations were available on request. He advised that some clients were starting to look at this internally, whereas others were concentrating on buy-ins and what had changed in the process or the best practice to minimise their occurrence. The market was actively engaged, with clients assessing the extent to which they were impacted, but this depended on the size of the business. Mrs Concannon recommended that market participants should consider this so as to ensure they were adequately prepared.

12. Committee Effectiveness Review – Results

Ms Feely presented the results of the Effectiveness Review process for the Committee. The Chair noted the positive outcomes from the review, and encouraged a higher level of response in the next such exercise. The comments as to opportunities for improvement were duly noted. The results

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were discussed and the resultant actions were agreed by the Committee. In particular, the Committee agreed to allocate sufficient time to consideration of strategic as well as product and service developments, while retaining the Committee's focus on critical themes including post-Brexit CSD migration, CSDR and other regulatory developments.

ACTION: Committee discussion to include consideration of strategic, as well as product and service developments – **Euroclear Attendees**

13. Date of 2020 Meetings

The Committee noted the dates for the remainder of meetings in 2020, as follows:

- Wednesday, 29 April 2020;
- Tuesday, 15 September 2020; and
- Wednesday, 11 November 2020.

14. Any Other Business

ACTION: The Committee recommended further agenda items to include details regarding cyber security threats, governance structure and protocol for breaches – **Co Sec**

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


Signed: Brian Healy
Chair