

PUBLIC

Minutes of the Meeting of the Irish User Committee of Euroclear UK & Ireland ("Irish UC" or the "Committee") held on 20 December 2018

Present: Brian Healy (Chair); Neil Colgan; Stephen Dwyer; Stephen Judge; Joe Molony; Darren Murray; Aidan O'Carroll; Pat O'Donoghue; David Trost.

Apologies: Sue Concannon; Ronan Deasy; Albert Farrell; Niall Harrington; David Todd; Sinead Kelly; Mary Poole; Neil Sharp;

Extended invitees: Robert Davis; Robert Ranson; Daryl Byrne; Niall Gibney; Stephen Empey.

In attendance: Susan Stenson; Christopher Twemlow; Charles Pugh (Secretary).

1. Welcome from Chair and market update

The Chair welcomed the attendees to the meeting and wished those present a happy Christmas and well-earned break.

He noted that this ad hoc meeting had been convened at short notice to receive an update on the progress so far made with regards to the short term continuity of service and the long-term solution and consider the proposal for the future the stakeholder engagement framework.

2. Conflicts of Interest

There were no conflicts of interest declared.

3. Post Brexit CSD and Settlement Arrangements: March 2019 Update

Mr Twemlow explained that on 19 December the European Commission had published their draft Implementing Decision which provided UK third country CSD equivalence for a period of 24 months in the event of a 'hard Brexit' on 29 March 2019. In conjunction with the announcement of 13 November this exceptional, time limited, equivalence decision indicated that the Commission recognised the importance of EUI, as current CSD for Ireland; acknowledging that any alternative CSD arrangement would take time to implement.

He also explained that, whilst this was helpful, EUI would still require to apply to ESMA for 3rd country CSD recognition before, and be recognised at, the point of a 'hard Brexit'. This application is currently in the process of being completed and, after a good detailed discussion on 19 December with ESMA on EUI's approach, it had been agreed with ESMA that EUI would complete its formal application for equivalence before the end of January. After review by ESMA, EUI could then gain conditional approval in advance of 29 March (the approval being conditional on a 'hard Brexit' occurring). To that end, the work on the application would continue, as would the regular contact with ESMA.

Mr Twemlow then briefed the Committee on a meeting with the Dept of Finance and Dept of Business, Enterprise and Innovation, held before the User Committee, regarding some necessary legal changes required in the event of a 'hard Brexit', including in respect of settlement finality protections. He briefly outlined that, whilst the Commission's decision clarified and moved the position regarding Irish securities settlement forward, it did not deal with the continued use of € for settlement in EUI, as this was solely an ECB matter. However it was to be hoped that the Commission position would allow the ECB to progress with their work on this and a meeting with the Central Bank of Ireland (held after the User Committee) would hopefully provide further information on any progress.

In the discussion that followed Mr Twemlow clarified the timelines involved in both a 'hard Brexit' and an agreed Transition arrangement and expressed the view that all of the authorities

knew the timings involved and were engaged, despite the very limited time available. However, whilst there is positive movement from the authorities regarding the 'hard Brexit' scenario, EUI was continuing with its 'switch off' contingency planning and, if there is still an element of uncertainty, would expect to produce further communications during January relating to the contingency plans for both Irish securities settlement and € settlement.

4. Post Brexit CSD and Settlement Arrangements: Long term solution next steps

Ms. Stenson informed the Committee of the recent discussions between Euroclear and the Irish Authorities where it was made clear by the Authorities that they expected to see an acceleration of the work to finalise and better prepare the implementation of the new model in view of the strict 24 month limit on emergency equivalence for hard Brexit. She outlined that the timetable to have EB operational as the CSD by March 2021 was extremely stretched and would entail a significant effort and collaboration from all market constituencies.

Ms. Stenson then described the proposed structure for the next steps of stakeholder engagement, as set out in the presentation, recognising that there was currently no full alignment around the model and that each different market segment had different pain points with it. This has been made clear to the Authorities who understand that compromise will be needed and expect to see the market quickly move in the right direction. There is also a material outstanding point on how Stamp Duty will be handled in the new model and Euroclear is discussing this aspect directly with the Authorities.

The proposed structure, which has been outlined to the Authorities, is to set up a Steering Board consisting of the senior sponsors and a senior market representative with the Dept of Finance and Central Bank attending as observers. This Board would provide strategic direction on key areas of the operating model. A Working Group will also be established to review the model in detail and each market constituency will be asked to nominate one member to be part of the Working Group to represent that constituency and ensure two way flow of information and views. The objective is to have WG of no more than 12 individuals to ensure effective operation and engagement.

The plan is to hold a number of meetings with the market over the next few weeks to build the level of market commitment to the model before the technology build was finalised. Once the model and market adaptation are finalised a White paper would be published describing the operating model in detail. This should be done by the end of Q1 2019. The Working Group would be key to this process with the proposal being to leverage the experience and continuity of User Committee members to represent their relevant constituencies with constituency sub groups being formed where required. The progress made by the Working Group would be reported to the Committee and would also be made available more widely.

In describing the structure, Ms Stenson was clear that Euroclear viewed the transparency and independence of the groups as important to their success and took on board the request of the Committee for the Working Group to have an independent chair. She also requested that, once the proposed structure was agreed, suggestions for the Working Group representatives be made by early January.

There was a discussion about the proposed structure and membership of the Working Group. The Committee felt that the use of sub groups would be valid for a number of market segments and that in some it may be important to have a more formal link to the Working Group to ensure that the views of the whole constituency were properly represented in the discussions. This Committee agreed that this would be of particular importance in the registrar constituency.

Ms Stenson agreed that the work of the sub groups would be key to the process and said that she had already spoken to AFME and they had agreed to provide a member of their Post-Trade committee to attend on behalf of the Custodians and Investment Bank segment. The Committee agreed with her view that having a small working group would be more effective to progress issues but that where relevant issues were being discussed there should be the ability

to flex the working group attendees to ensure the correct level of engagement. It was agreed by the Committee that alternates attend being mindful to ensure adequate continuity of discussion.

All agreed that the coming few months would be a short and intense period of engagement within the market on some quite complex issues and that flexibility with regards to diary management and attendance at these important meetings was crucial to success. Ms Stenson made it clear that whilst the structured meetings were important they should not prevent bilateral meetings between firms and Euroclear and/or Euronext.

The Chair summarised the discussion and the views of the Committee that the broad structure, as set out, was generally acceptable and reiterated the timelines involved. Membership of the Working Group had to be confirmed in the first week of January, with a first meeting expected during the week of 22 January.

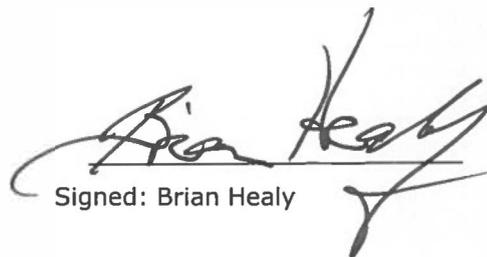
It was anticipated that, given the complexity of the Stamp Duty issue, the Irish Revenue Commissioners would attend the Working Group when it discussed that matter and that an open invitation be in place for the Authorities more generally to attend the Working Group meetings.

After further discussion on the membership of the Steering Board and Working Group it was agreed that further bilateral calls would be held with Committee members. These calls would have the aim of finalising the Chair of the Working Group and of the Steering Board and the market representative to sit on the Board so that the membership could be agreed and informed to the Authorities. Once agreed, a communication on the Groups' membership and their Terms of Reference would be shared with Committee members in the week of 6 January. Ms Stenson reiterated that any further bilateral communications on the membership of the Board and Working Group, including suggestions for the independent Chair, were welcome.

5. AoB

There being no other matters the Chair closed the meeting, wishing everyone a very happy festive break, hoping they would all return refreshed in the New Year ready and prepared for the important work of finalising the long-term settlement model during Q1.

Date of Next Meeting – 24 January 2019



Signed: Brian Healy