

## PUBLIC

**Minutes of the Meeting of the Irish User Committee  
of Euroclear UK & Ireland ("EUI")  
("Irish UC" or the "Committee")  
held on Tuesday, 12 March 2019 at 11:30am  
at the offices of  
Arthur Cox, 10 Earlsfort Terrace, Dublin 2, Ireland**

**PRESENT:** Brian Healy (Chair); Robert Davis; Ronan Deasy; Stephen Dwyer; Albert Farrell; Donald Halligan; Stephen Judge; Joe Molony; Darren Murray; Aidan O'Carroll; Mary Poole; Neil Sharp; Peter Stewart; David Trost.

**APOLOGIES:** Neil Colgan; Niall Harrington; Cathal O'Connor; Sinead Kelly; David Todd.

**EXTENDED INVITEES:** Stephen Empey.

**IN ATTENDANCE:** Sue Concannon; Ian Dowglass; An Mestdagh; Charles Pugh (Secretary); Carl-Alexis Rafen; Susan Stenson; Cevdet Sumbultepe; John Trundle; Christopher Twemlow.

### 1. Welcome from Chair and Market Update

The Chair welcomed the attendees to the meeting. He thanked Christopher Twemlow, Euroclear, and Arthur Cox for facilitating a new venue at such short notice.

The Chair reported that since the January User Committee and first meeting of the Euroclear Bank CSD Working Group (the "**EB CSD WG**") on 24 January 2019, four further EB CSD WG meetings, three Steering Board meetings and numerous bilateral meetings had taken place and considerable progress had been made in relation to the 'future CSD model'. At the EB CSD WG meeting earlier in the day on 12 March, there had been attendance from the Revenue Commissioners and the Department of Finance to discuss the treatment of Stamp Duty and Dividend Withholding Tax.

The Chair also noted that 12 March could be an auspicious day in relation to Brexit (a further vote in the UK Parliament on the proposed 'deal') and, regardless of what happened, the Irish market was now in a very different place to that reported on at the January Irish UC meeting. Since then, EUI had received its conditional recognition as a third-country CSD (conditional on a 'hard' Brexit) and Euroclear had reached an agreement in principle with the European Central Bank (the "**ECB**") for the continued provision of settlement of Euros in central bank money.

### 2. Conflicts of Interest

All members confirmed, in response to an enquiry from the Chairman, that no conflicts of interests arose or needed to be declared in respect of the business of the meeting.

### 3. Minutes

Mr Farrell queried if there had been progress in the EB CSD WG's discussion of dematerialisation in light of "future model" change. Mr Halligan commented that the Registrars had made a submission, supported by the Issuers, Brokers and Custodians, that it should be included in the interests of market efficiency. Ms Stenson noted that the matter would be discussed at the next Steering Board where the suggested wording of the Registrar sub-group would be presented. Mr Halligan and Mr Molony stated that they had met the Central Bank of Ireland ("**CBoI**") to discuss the matter further.

The Chairman added that this topic had been discussed at every meeting of the WG and would be referred to in the White Paper. However, care was needed to avoid it being placed on the critical path of the project. It was accepted that it was an important and necessary development of the market but that it should be run as a parallel market project, separate from the CSD project.

Ms Stenson explained that the Euroclear Bank (“**EB**”) model facilitated dematerialisation and agreed that the efficiency of the market overall was a key consideration in both the CSD and dematerialisation projects. However, she was clear that dematerialisation should not be on the critical path for the move from EUI to EB as this would entail a high risk in an already stretched project.

The Chairman updated the Committee on the progress of the WG meeting held immediately prior to the UC meeting. The mechanism to migrate the securities between the CSDs was discussed. The WG was unanimous in its view that a central legislative mechanism was needed to ensure a safe migration rather than the prospect of hundreds of individual Schemes of Arrangement occurring. Discussions on this matter had started with the Irish Authorities.

The Chairman updated the Committee on the matters arising from the last meeting:

- The Chief Internal Auditor of EUI would give the Committee an overview presentation on the EUI annual audit plan at the next meeting in June 2019.
- The Product and Service Update Agenda item had been reinstated and would be a regular item at future meetings.

The Minutes of the meeting held on 24 January 2019 were **APPROVED** unanimously and were subsequently signed by the Chairman.

#### **4. Post-Brexit CSD and Settlement**

Mr Twemlow recapped the current situation regarding EUI and Brexit. He explained that:

- if there was an agreed deal then there would be no change to the current provision of services until the end of the transition period (currently expected to be end 2020);
- for the provision of settlement services for Irish securities, if there was a ‘no deal’, ‘hard’ Brexit then EUI would be considered a third country CSD under CSDR (this had been confirmed by ESMA) until March 2021. This would automatically come into force and so EUI could continue to act as the issuer CSD for Irish equities; and
- for the provision of Euros for settlement in central bank money, the connection to TARGET2 required a move from the CBoI to the ECB directly to satisfy the ECB requirements for third country ancillary system access. This move required limited technical changes but it also required testing, legal agreement with the ECB (the new contract was under German law rather than Irish law) and associated changes to contracts with the settlement banks. The contracts were all agreed in principle with no significant issues and it was expected that everything should be in place in time.

Mr Twemlow explained that the plan was to proceed with the move of the Euro provision on 1 April 2019 regardless of the scenario, Brexit deal or ‘hard’ Brexit. This would avoid the requirement for there to be a ‘decision point’ and potential market uncertainty and allowed for the continuation of service in all circumstances.

Mr Molony asked what would happen should no Brexit actually occur. He understood that Euros would move to the ECB regardless but queried what would happen with regard to the move of CSD to EB. This was important to the Issuers.

Ms Stenson explained that a pragmatic approach would be required if Brexit was called off and there would need to be discussion with the Authorities but that the base case was to move to EB and the move was Brexit-agnostic. The Chairman confirmed that a recent

speech by the Irish Minister of Finance confirmed the Authorities' commitment to CSD change and to using EB.

The Chairman noted that the EB CSD WG minutes had been published for the first and second WG meetings and invited Ms Stenson to update the Committee with details of the progress which the WG had made.

Ms Stenson noted that in the six weeks since the first meeting, a large amount of detailed work had been undertaken by the WG regarding how EB would service Irish securities. The work completed by the EB CSD WG had not raised any 'iceberg' issues and further details now needed to be worked through with relevant market stakeholders. She also noted that it was positive from a Euroclear Group and market perspective that, at a recent EB CSD WG meeting, a 'Tour de Table' agreed that there was no fundamental issue that would prevent the move to EB.

She explained that the White Paper would describe the framework that EB would work to and the WG would be asked to gather the support of their respective constituent groups for the White Paper before publication. Ms Stenson then explained some of the main discussion points that still required finalising:

- Stamp Duty – It was accepted that further work was needed on Stamp Duty. A solution for the non-cleared transactions (the main volume of transactions) was planned in the EB adaptation for the Irish market but work was still required with the CCPs and Revenue Commissioners to resolve the specific issues of cleared transactions.
- Corporate Actions and Asset Servicing - It was noted that more details were required on corporate actions and asset servicing and work would continue with AFME and the Registrars.
- Registrar Communications – A SWIFT connection would need to be built to enable the Registrars to connect to EB and there would be work required between the Registrars and SWIFT to work out a timeline and define requirements.
- Migration – Discussions had commenced with the Authorities and it was accepted that the migration proposals needed to be co-ordinated to the greatest extent possible but they were "work in progress" and would not be ready for the White Paper.
- Legal – The required legal changes had been reviewed with the WG members and the Irish legal community. Further work was ongoing, the Irish legal community were due to present their view on legal changes needed for the model imminently.
- Timeline – The Committee was acutely aware of the complexity of the change of issuer CSD and of the amount of work required to meet the date of March 2021 when EUI's emergency equivalence expires. It did not give much time for such a large migration.

Ms Stenson explained that these points had been discussed with the WG and it would be a challenge of collaboration and focus to achieve the WG's objectives. She noted that the progress had been good and the project was in a good place with improved engagement from the Authorities. However all were of the view that the amount of work still to be done could not be underestimated. The Authorities had recently indicated that they were open to bilateral meetings and the Chairman encouraged members of the Committee and WG to take up this offer.

Mr Murray commented that communications/connectivity of more than just the Registrars should be considered as numerous other market participants would not have a connection with EB and, given the numbers, the amount of work involved to ensure they could continue post-migration was significant. Ms Mestdagh explained that there was a choice of methods for communicating with EB – SWIFT (using standard SWIFT messaging) or EasyWay (the proprietary interface/messaging system). Mr Murray explained that having the structure of the messages early would be important as many firms would need to start planning IT changes to their existing back office systems, etc., at an early stage.

Ms Stenson agreed that client readiness in relation to communication methods, account set up, etc. needed to be adequately reflected in the project timeline and the various WG representatives needed to work closely with their respective communities on these items. The Chairman agreed that this was a good example of how the WG members should be working with their communities in order to be able to provide more feedback into the consultation process and also informing the project timeline.

Mr Molony asked if the migration was anticipated to be a 'Big Bang' or it would be structured across a number of weekends. Ms Mestdagh confirmed that the intention was for all the securities to migrate issuer CSD from EUI to EB over the same weekend.

Ms Concannon enquired if there was any information on the change in costs that participants could expect. Ms Stenson explained that the tariff structure to be used by EB had been discussed with the WG and that there would be on average a doubling of costs which had been accepted by the WG. Given the wide variety of clients, the impacts would be different depending on the nature and scale of the specific business of each client. She said that bilateral meetings would be held to discuss the new tariff with clients. The Chairman agreed that the settlement fees were likely to be broadly similar to the current tariff but that the custody and asset servicing fees would be new introductions for the Irish market.

Ms Stenson concluded by thanking the EB CSD WG members for the work they had done, for their constructive engagement and for the time and effort they had put into the project to date.

The Chairman concurred, added his appreciation to each member of the WG and he also expressed thanks to Euroclear Group for the support they had given and for the transparent and open process underway in relation to the CSD project. He noted that it had been a very productive two months but this productivity and level of engagement needed to continue if the work of the WG was to be completed within the challenging timeline set for it. He concluded with a risk assessment of the project – the third country recognition and Euro solution had substantially mitigated the short term risk and the work done on the EB project has improved the long term risk but there was still a very considerable amount of work to be done.

## **5. CEO Update**

The Chairman suggested that the detail of the CEO Update be taken as read and he invited Mr Trundle to provide an overview. Mr Trundle stated that CSDR continued to dominate the focus of management along with Brexit and production stability. He highlighted that the production stability had so far been good for 2019 with a year to date score of 99.99% (above the target of 99.80%) and that there were no issues to report for 2019 YTD.

Mr Trundle confirmed that there were no relevant audit findings to bring to the attention of the Committee.

Mr Trundle requested some time to make a personal announcement. He informed the Committee that he had recently announced his decision to stand down as CEO at the end of August 2019 after seven years in the role. He stated that this was the third job he had stayed in for seven years and felt that now was the time for him to stand down.

The Brexit file was in a very good shape, with the continuation of service agreed for both the Irish securities and provision of Euros. Given where the file was a year ago, he was very happy with the progress. On the CSDR file, he confirmed that EUI had committed to complete delivery of the application to the Bank of England (the "BoE") in July and that everything was progressing in the right direction, although there was still lots to do.

He informed the Committee that the Board was going to have a two day offsite to discuss life beyond Brexit and CSDR, and review long term projects. He felt that this was a good time to 'pass on the baton'. He confirmed that the Board had commenced the search process.

The Chairman expressed his regret at the news and stated that it had been a pleasure and a privilege to work with Mr Trundle over the past seven years. He described Mr Trundle as a 'true Renaissance man' with a tremendous depth of market knowledge, an open and collaborative style on all key issues and with a fundamental integrity to his core. The Irish market had benefitted from these strong traits, which were manifested by the way the EUI management had engaged post the UK's Brexit referendum in 2016 on the analysis and proposed implementation of various future solutions. Finally, he offered his personal thanks and very best wished to John for the future. The members of the Committee unanimously endorsed the Chairman's views and added their best wishes.

## **6. Product and Service Update**

Mr Sumbultepe explained that for the past few years the CSDR and Brexit work had taken centre stage but that now was the time to take a step back and review the strategy of EUI.

He updated the Committee on the Euroclear group strategy to strengthen, grow and reshape the network.

This strategy provided a number of important items for EUI including investing in the core systems to further enhance cyber resilience and also to comply with regulatory requirements, optimising the use of collateral for clients, increasing transparency and settlement efficiency in a world of CSDR Settlement Penalties. The focus would also be on reviewing the opportunities that would arise after Brexit.

He stated that the EUI Board would discuss the future strategy at their two day offsite in a series of workshops and that EUI would discuss the strategy further with the Committee in September.

## **7. CSDR Update**

Mr Pugh confirmed that ESMA had given EUI conditional recognition as a third country CSD (conditional on a 'hard', no deal Brexit) and that work continued on the CSDR application with the first delivery of articles having occurred early on 31 January 2019. The feedback received from the BoE was encouraging and they noted the improvement in the quality of the application. He reported that work was progressing on subsequent submissions through to mid-2019.

With regard to settlement penalties, Mr Pugh confirmed that on 25 February 2019, the EUI Board confirmed that EUI could join the Group settlement penalties engine development and that the preliminary design work was well under way. It was planned that most of the client facing changes would be delivered in the November 2019 software release, with a business launch in March 2020. This was to give clients the opportunity to structure their internal developments within their own change management timelines. The main group deliverable of the penalties calculation engine was scheduled for June 2020. This would enable a period of parallel running so that clients could receive reports using live transactions and ensure that their internal systems and processes were all in place before the live date of 14 September 2020.

Mr Pugh advised that a client roadshow had been held in London (the Dublin roadshow was held in the afternoon of the Committee meeting), with others to be scheduled in the UK to start the information flow regarding the impacts of settlement penalties. The Chairman thanked Mr Pugh for the update and highlighted the demands which the new

regime would impose on the market at what would also be a time of considerable other change, including the CSD migration for the Irish market.

## **8. Default Guidelines and Market Engagement**

Mr Dowglass presented the Default Guidelines paper to the Committee. He explained that the paper was designed to be a useful public document for market participants and insolvency practitioners to ensure that all of the market was aware of the process and what they could expect in the event of a participant default.

While all clients would be made aware of the guidelines as part of the standard client interaction with their relationship managers, it was also incumbent on EUI, under CSDR, to ensure that this knowledge was demonstrated through annual formal tests. He explained that EUI already ran annual business continuity tests but that, to date, these had concentrated on the settlement banks and the contingency procedures for access to central bank money. The plan was to expand these tests in 2019 to include participants and test that they too were aware of the default process and its impacts.

**ACTION:** Mr Dowglass invited members of the Committee to volunteer to be part of the test development process so that the resultant tests were reasonable in their approach and covered the requirements – **ID/Co Sec**

The Chairman thanked Mr Dowglass his presentation and encouraged members to volunteer to help shape the required tests.

## **9. 2018 Client Satisfaction Results**

Mr Trundle presented the 2018 Client Satisfaction results to the Committee. He reminded the Committee that this was an annual survey covering all the sectors of the EUI business and, with a target response rate of 40%, the output was sufficient to draw conclusions. He explained the use of the "net promoter score" metrics and noted that the increase in net promoters and decrease in the detractors was a good result. While the survey did allow anonymous feedback, it was encouraging that a number of clients who made comments had provided contacts, which enabled further analysis of the scoring and valuable feedback to be obtained.

Mr Trundle commented that a number of the comments received related to the lack of innovation over the past few years, which tied in with the work being performed internally on CSDR and Brexit reducing the ability to develop new products; and others related to specific incidents such as operational slowness which directly related to high volumes of transactions being settled for the specified periods. He noted that all of the comments were helpful and when analysed, provided a good indication of the areas that needed to be progressed in the future when CSDR and Brexit were less to the forefront of the business.

Mr Colgan enquired why 2016 appeared to be so much better than 2017 and 2018. Mr Trundle explained that 2016 was prior to CSDR and Brexit and, as such, EUI was more able to discuss strategies and business developments with its clients. He hoped, given the previous discussion at the Committee on the EUI strategy and the progress made with CSDR and Brexit, that 2019 would enable EUI to return to these type of conversations with its clients. The Chairman welcomed the client survey process and noted that in itself it indicated good governance practice and an openness to listen to client feedback.

## **10. Date of Next Meeting**

The Committee **NOTED** that the date of the next meeting was 25 June 2019.

## 11. Any Other Business

Mr Dowglass informed the Committee of the success of EUI's processing of the Takeda/Shire takeover. He explained that with the launch of central bank money for USD in October 2018, EUI became the first non-US infrastructure to instruct payments in central bank money at the Federal Reserve. He noted that the Takeda/Shire takeover was the first large corporate event to occur using this process with a US\$27.1BN cash outturn resulting in a cash flow in EUI of US\$34BN on the day, which all worked as expected and to plan. He explained that, given this success, the work for 2019 was to increase the market awareness of EUI's ability to settle in central bank money in USD and to increase its use by participants, in areas such as the \$CD issuance, collateral operations, and also with the issuers for other corporate events.

**ACTION:** Future agenda points were noted as – **Co Sec:**

- Presentation from Internal Audit on the Internal Audit process;
- Product and Services update; and
- White Paper on the future Irish settlement and CSD solution via Euroclear Bank.

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



Signed: Brian Healy  
Chairman