

PUBLIC

Minutes of the Meeting of the Irish User Committee of Euroclear UK & Ireland Limited ("Irish UC" or the "Committee") held on 13 November 2018

Present: Brian Healy (Chair); Aidan O'Carroll; Albert Farrell; Darren Murray; David Todd; David Trost; Donald Halligan; Joe Molony; Mary Poole; Neil Colgan; Neil Sharp; Niall Harrington; Robert Davis; Ronan Deasy; Stephen Dwyer; Stephen Judge.

Apologies: Cathal O'Connor; Sinead Kelly;

Extended invitees: Daryl Byrne; Niall Gibney; Rose Horgan; Pat O'Donoghue; Peter Stewart; Stephen Empey

In attendance: John Trundle; Jennifer Parker (Secretary); Charles Pugh; Carl-Alexis Rafen; Susan Stenson; Christopher Twemlow; Sue Concannon; An Mestdagh

1. Welcome

The Chair welcomed Committee members to the meeting and also welcomed Daryl Byrne, CEO of Euronext Dublin.

The Chair noted that Agenda item 5 - *Post Brexit CSD and settlement arrangements* - was the key concern for the Committee and the wider market.

The Chair proposed to take item 4 next on the Agenda.

4. Proposed Appointment of New Committee Member

The Committee noted the proposal that Mr Peter Stewart of Citibank be appointed as a member of the Committee as a representative of the custodian segment following the recent resignation of Mr Malcolm Fitzgerald from the Committee.

The Chair recommended the appointment of Mr Stewart and the proposal was seconded by several Committee members. The Committee **approved** unanimously the appointment of Mr Stewart to the Committee with immediate effect.

On behalf of the Committee, the Chair expressed the Committee's thanks and appreciation to Mr Fitzgerald for his active and engaged participation on the Committee and also the former Market Advisory Committee. The Committee sent its best wishes to Mr Fitzgerald for the future.

Mr Stewart joined the meeting.

2. Conflicts of Interest

No conflicts of interest were declared

3. Approval of Minutes for the Meeting held on 10 September 2018 and Matters Arising

The Minutes of the meeting held on 10 September 2018 were **approved** unanimously.

5. Post Brexit CSD and Settlement Arrangements - Update

The Chair commented that post-Brexit settlement arrangements for Ireland remained the single most important issue for the Irish market. It was recognised that the political context remained challenging and the current uncertainty was likely to continue for some time.

The Chair noted that there had been progress on market-level discussions regarding the long-term solution since the Committee's last meeting in September, but differences in view remained. He encouraged Committee members to engage in an open and full debate.

Mr Twemlow re-iterated that EUI's objective remained to ensure short-term continuity of settlement in Ireland after 29 March 2019, irrespective of the eventual Brexit scenario, provided that EUI was legally able to do so. He noted that the European Commission had recently indicated informally that the so-called "grandfathering" provisions in CSDR would not be applicable to EUI in a "hard" Brexit scenario. EUI was now seeking to understand the basis for this view. On a more positive note, Mr Twemlow and Mr Trundle noted their understanding that the Commission may be preparing emergency temporary conditional equivalence provisions to cover post-Brexit continuity

in a number of circumstances, including settlement. More clarity was expected in the coming weeks, but the situation would remain uncertain until then.

In response to a question from the Committee, Mr Twemlow noted that the continued availability of settlement in euros would be a matter for the ECB (and not the Commission). There was no certainty on the ECB position at present.

The Chair agreed with the views of Mr Trundle and Mr Twemlow that the overall sense of direction seemed encouraging and added that he would not expect more clarity from the authorities until there was full support from the market for the long-term solution.

Ms Stenson updated the Committee on the actions taken since the discussions in September to develop the proposed Euroclear Bank model for the long-term settlement solution. This included bilateral meetings and workshops with market participants. Ms Stenson noted that good progress was being made and that, overall, no blocking issues had been identified. She acknowledged that the model was not currently supported by all participants and that open questions remained on (inter alia):

- Stamp duty;
- Corporate actions;
- Withholding tax on dividends;
- Various legal and regulatory questions.

Ms Stenson added that market participants had proposed a number of variations to the Euroclear Bank model. These were being considered by Euroclear Bank and would be discussed in the next phase of market engagement.

Ms Stenson confirmed that active engagement with the market would continue and re-iterated that progress on the long-term solution would be key to unlocking the position on the short-term solution with the authorities.

Mr Byrne summarised the steps taken by Euronext during September and October and confirmed that engagement had taken place with market participants, Euroclear Bank and Clearstream. On 24 October 2018, Euronext had written to the Central Bank of Ireland to recommend the Euroclear Bank model as the long-term solution for settlement of Irish securities. Mr Byrne noted that the key reasons supporting this recommendation were:

- lower migration costs; and
- lower risk model.

However, Euronext recognised that a number of issues remained to be resolved in the next phase.

Mr Byrne noted that, to date, no response had been received from the authorities, although a meeting was planned with the Central Bank of Ireland and the Department of Finance on 15 November 2018. Euronext intended to issue a market communication following the meeting and to move into the project implementation phase, including confirmation of the process for stakeholder engagement.

Committee members asked whether stamp duty needed to be resolved at the current stage of the process and expressed concern that, if the Euroclear Bank model were to be adopted before such issues were resolved, then the market could be presented with a *fait accompli*. Ms Stenson replied that a number of detailed issues would take time to resolve and it was important to ensure a validation process in which all views were expressed and market consensus was reached.

A Committee member asked whether the Clearstream model could offer a solution closer to the current CREST model and suggested that further engagement was required on both models in order to establish the best solution for the market. Mr Byrne replied that Euronext had made its recommendation following a thorough process and detailed analysis.

The Chair noted that Euronext had made its recommendation and the authorities had also engaged directly with Euroclear Bank, Clearstream and others. Accordingly, he considered that, subject to feedback from the authorities on the recommendation of Euronext, the direction of travel was now set and the next steps would be to further develop and refine the recommended model.

A number of Committee members expressed concern that the process undertaken by Euronext had lacked transparency and asked to receive a copy of the Euronext recommendation letter. They further requested that the level of market engagement should increase significantly from the process followed to date. Mr Byrne confirmed that there would be a market communication following the Euronext meeting with the authorities on 15 November 2018.

A Committee member noted that there were two sides to the market – the corporate governance/issuer side and the settlement side – and the issuers and registrars were not happy with the long-term model as currently proposed. Ms Stenson replied that feedback and variations on the model had been received at the recent workshops and the next phase would be to consider and iterate the model taking into account the concerns voiced by issuers/registrars.

A number of Committee members expressed the need to build market consensus and noted that there were a number of issues that needed to be addressed. Committee members repeated their concern that the market could be left in a “take it or leave it” situation and asked what mechanisms would be put in place to ensure that market views were taken into account. They emphasised that there needed to be a degree of independent oversight as the model was developed and Ms Stenson confirmed this was a key governance question to resolve. The Committee also noted a desire for increased involvement and engagement of the Irish Authorities on the project.

The Chair acknowledged the level of discomfort with the process and perceived lack of transparency to date. He underlined that he wanted to move the focus to the project phase and further engagement with the market. He agreed that it would also be helpful if the authorities were part of the next phase.

Mr Byrne confirmed that governance would be discussed at the meeting with the authorities on 15 November 2018.

A Committee member asked whether there had been progress on issues such as stamp duty and corporate actions. Ms Mestdagh replied that a corporate actions review was progressing and Euroclear Bank had started discussions with the Irish Revenue Commissioners on stamp duty and were waiting for further feedback. She noted that more analysis was needed as the Euroclear Bank solution could not currently support Irish stamp duty.

The Chair commented that Euroclear Bank now had a full view of all the relevant issues for the Irish market, following the workshops and bilateral meetings. The next step would be for Euroclear Bank to develop its responses.

Several Committee members asked for a register of issues to be built and maintained. Ms Stenson replied that Euroclear Bank had not yet moved to the next level of detail and needed clarity on the level of commitment from the market to the Euroclear Bank model before it could develop more detailed responses.

A Committee member asked for a sense of the relative weightings of the Euroclear Bank and Clearstream models and Mr Byrne replied that migration risk had been an important factor in favour of the Euroclear Bank recommendation.

The Chair noted that the only provider for the short-term solution was EUI. No other options were available and there was clear market consensus on this point. It could be advantageous for the long-term to remain with a Euroclear model and he regarded this as a relevant consideration.

A Committee member repeated that there should be clear tracking of issues that required follow-up. The Chair replied that, assuming a positive response was given by the authorities, the next steps would be to focus on governance and the project implementation approach. He added that the ETF community was not currently represented at the Committee, but the funds industry had been engaged in the process of via bilateral meetings.

The Committee noted that it would be important to understand who would lead the process going forward and highlighted the need for a strong project leader. Ms Stenson replied that further clarity on the governance approach could be elaborated following the meeting with the authorities on 15 November and noted that it was incumbent on all players to ensure the next phase of the project was more transparent. One Committee member repeated the earlier comments that the governance model should incorporate a degree of independent oversight in order to build trust.

There were no further questions, and the Committee noted that the next step would be an update following the forthcoming meeting with the authorities.

6. CEO Update (including recent system performance and any relevant audit findings)

The CEO update paper was noted and Mr Trundle highlighted three matters to the Committee:

- **CREST USD service:** Mr Trundle confirmed that the CREST USD service had been launched successfully at the beginning of October and that EUI was the first foreign institution to offer US dollar central bank money settlement. Mr Trundle noted that the launch had gone smoothly and there were consistently strong levels of activity (total consideration around USD 2.5bn per day). He added that the model delivered multilateral netting with a netting factor of up to 10. The Fed had expressed its satisfaction with the model and the launch.

A Committee member noted that a major corporate action would take place in January 2019 which would have a significant US dollar component. Mr Trundle confirmed that EUI was aware and the matter would be reviewed with the EUI Settlement Bank Committee members.

The Committee congratulated EUI on the launch of the service.

- **Operational performance:** Mr Trundle reported that CREST service resilience remained at 100% and settlement availability stood at 99.89% year-to-date (above the 99.80% target). He noted that an incident had occurred in October, which had been resolved without any business impact.
- **Relevant audit findings:** Mr Trundle confirmed that there were no relevant audit findings to report to the Committee. The Committee noted that a further update on the process would be provided to the next meeting.

There were no further questions.

7. CSDR Update

Mr Pugh confirmed that the EUI CSDR programme continued and noted that the ESES CSDR application had recently been declared complete by the relevant authorities.

Mr Pugh confirmed that EUI was currently scoping the requirements for the settlement penalties solution, with a view to defining a solution by year end. Mr Pugh anticipated that the previous Bank of England working group on settlement discipline would be relaunched in early 2019, although the composition, structure and operation of such a working group was not yet defined

8. AOB

It was agreed to add *Product and Service Update* as a standing agenda item for 2019.

The Committee agreed to meet on 22 January 2019 and 12 March 2019, with subsequent dates to be confirmed. **Action:** Ms Parker (post meeting note: 2019 meeting dates confirmed).

In addition, it was agreed that ad hoc meetings should be scheduled on an as needed basis.

Mr Twemlow agreed to provide updates as required on the position of the European Commission and the ECB.

Date of Next Meeting – xxxxx


Signed: Brian Healy