PUBLIC

Minutes of the Meeting of the Irish User Committee
of Euroclear UK & Ireland ("EUI")
("Irish UC" or the "Committee")
held on Wednesday, 23 October 2019 at 3:30pm
at the offices of
JP Morgan, 200 Capital Dock, 79 Sir John Rogerson's Quay, Dublin 2, Ireland

PRESENT:	Brian Healy (Chair); Jai Baker; Neil Colgan; Robert Davis; Stephen Dwyer; Albert Farrell; Stephen Judge; Joe Molony; Darren Murray; Aidan O'Carroll; Mary Poole; Neil Sharp (*via teleconference*); Peter Stewart; David Todd; David Trost.
APOLOGIES:	Sue Concannon, Ronan Deasy; Niall Harrington; Sinead Kelly.
EXTENDED INVITEES:	David Fitzgerald.
IN ATTENDANCE:	Chris Elms; Deirdre Feely (Secretary); Massimiliano Paraponiaris; Charles Pugh; Cevdet Sumbultepe; Eric Zapita.

1. Committee Constitution

Re-Appointment of Chair
Ms Feely **PROPOSED** the re-appointment of Mr Brian Healy as Chair of the Irish User Committee. Mr Healy had confirmed his willingness to continue to act as Chair of the Committee and the independent non-executive directors of EUI **RECOMMENDED** his continued appointment. In the interests of transparency and good governance, communication had issued to the Committee in this regard on 16 October 2019, to invite any Members who may be interested in the position of Chair to put their name forward. Ms Feely confirmed that no responses had been received to date.

The Committee **APPROVED** the re-appointment of Mr Brian Healy as Chair of the Irish User Committee effective 23 October 2019, until the Irish User Committee ceased to be an EUI User Committee following the migration of Irish securities settlement to Euroclear Bank ("**EB**") or, if longer, for a further period of two years.

Mr Healy joined the meeting as Chair.

2. 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.

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. However, as set out in CSDR and the Committee's Terms of Reference, the Committee could deliver a non-binding opinion to the EUI Board "containing detailed reasons regarding the pricing structures of the CSD" and accordingly all Committee members would participate in the discussions.

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

3. Committee Constitution

Appointment of Jai Baker
The Chair noted the recent resignation of Mr Donald Halligan as Committee Member at the previous meeting on 25 June 2019. He **PROPOSED** and **RECOMMENDED** that Mr Jai Baker of Link Asset Services be appointed as a Member of the Irish User Committee, having provided his consent to such appointment, effective 23 October 2019.

The Committee **APPROVED** the appointment of Mr Jai Baker as a Member of the Irish User Committee, effective 23 October 2019.

4. Welcome from Chair and Market Update

The Chair welcomed the Committee to the meeting, especially Mr Baker following his appointment and also Mr Fitzgerald, of Euronext Dublin, as an extended invitee, to their first IUC meeting. Given the agenda and the nature of the matters to be covered he noted that the market update would be dealt with in the course of the meeting.

5. Minutes

The Minutes of the meeting held on 25 June 2019 were **APPROVED** unanimously and were subsequently signed by the Chair.

6. Matters Arising

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

7. Tariff Review Update

The Chair reminded the Committee as to their role in providing an advisory and non-binding opinion to the EUI Board on tariff matters in accordance with CSDR. Discussion should remain confidential to the Committee for the purposes of fulfilling its role and with the information provided at the meeting being provided to attendees strictly in their capacity as a Committee Member, and should be fully cognisant of its commercial sensitivity. The Chair asked the Euroclear executives to take the Committee through the presentation and he noted that there was ongoing bilateral engagement between EUI and the Committee Members' respective organisations to discuss the planned tariff updates.

Mr Sumbultepe referenced the presentation, as provided to the Committee, and advised that there had been no tariff changes at EUI since 2012. At that time, a commitment was made not to increase the tariff for the next five years, barring any significant market change. However, such a commitment could not be made under the requirements of CSDR which required an annual review of the tariff. The planned tariff changes aimed to better reflect the value of EUI's services, address concerns raised by clients regarding the international service, and to allow EUI to invest further in value-added services for clients. Mr Sumbultepe further noted that since the previous review, EUI had experienced significant operating cost increases driven most recently by regulatory and cyber security requirements. The tariff review was therefore also necessary to facilitate the requisite system upgrades and infrastructure changes for EUI, many of which were regulatory driven.

In conducting the tariff review, Mr Sumbultepe stated that EUI sought to distribute costs across clients in a fair and equitable manner. As such, the proposal included:

- the increase of annual fees – to be charged on a monthly rather than an annual basis in line with other CSDs in the market and to facilitate more fairly distributing the fixed costs of EUI; and
- an increase in asset maintenance charges – to reflect the secure and resilient holding structure, and for EUI to remain competitive.

Details of the planned tariff changes, including the sliding scales associated with certain charges, were outlined in Annex 1 of the presentation which Mr Sumbultepe outlined to the Committee. He confirmed bilateral discussions regarding the planned tariff updates had been held with all Members of the Committee.

In respect of the international service, Mr Sumbultepe advised on the planned overall reduction which more accurately reflected the charges EUI received from its agents. The changes were not only on the custody side, but also with regard to transactions.

A Committee Member raised concerns regarding the planned increase in annual member account charges, noting that a small number of CREST Participants could expect a disproportionate rise in annual charges, based on the number of member accounts held. He queried how this represented an equitable distribution of costs and opined that the tariff updates were disproportionate when applied to different market sectors and participant structures. There was a potential 1,200% factor increase overall on the back of the member account increases alone (representing a rise from £1 to £12 per annum per member account).

A Committee Member suggested that an increase in settlement charges may provide a more fair distribution of the tariff increase across all Users. He opined that the increase in custody related charges could be deemed to target a sub-section of the User base. However, if there was a decrease in the planned asset maintenance charge, there was a fair assumption that this could be offset by an increase in settlement charges and operate as a fairer distribution of the tariff impacts. In the discussion which followed, other Committee Members supported the view that settlement charges should be reconsidered as a source for increasing revenues.

Mr Sumbultepe advised that no particular sector was being targeted in the tariff review, with the points as raised being noted. There were different elements of the tariff that would affect different participant types and sectors. He stated that EUI was seeking to further reduce its revenue dependencies on transaction volumes and accordingly, settlement charges had not been increased. If this had been done, some Users would again be affected more than others and it was a difficult balance to satisfy.

Mr Pugh reiterated the increased costs of running EUI's business, which in particular include both regulatory and cyber resilience spend, which affected a number of aspects of the CREST system and thereby all Users. EUI were required to secure an adequate base line of income in order to sufficiently cover these operating costs, including a significant fixed cost element. He noted that any changes to settlement charges would increase the dependency of EUI on what the market did and how trading moved forward, and that the introduction of netting and other market initiatives in recent years meant that EUI had experienced diminishing settlement volumes.

The Committee again considered a planned uplift in settlement charges, with Mr Pugh stating that the increases in EUI's annual account charges sought were not dependent on volumes, hence why the tariff regarding settlement remained unchanged.

Mr Elms advised that to achieve a balance between each sector; to adequately address the concerns as raised; and to facilitate progression to the recommendation stage with the EUI Board – continued engagement and further bilateral discussions were required. Mr Elms requested that, when considering the planned tariff changes, the Committee remained mindful of the investment requirements for future CREST enhancements and development required as a result of regulatory change, as well as future areas of development such as the communications strategy.

The Committee agreed that a tariff review was warranted and due, but requested that the nature of the distribution of costs across market sectors be revisited. This included considerations in the context of Irish capital markets and the migration of Issuer CSD to EB, given that market behaviour following the migration could not be anticipated, the very competitive nature of Dublin/London liquidity pools and in order to ensure that the post-trade offering for Irish securities remained attractive to investors.

Mr Sumbultepe agreed and noted that EUI was also a client of EB and would be likewise affected, and this would have to be continually assessed throughout the migration. Mr Pugh added that EB would make a pricing proposal for Irish equities to the market and EUI would be charged at the same rate as all other clients. Once this had been set by EB, the EUI charge to clients relating to Irish securities held through EB could then be assessed. He noted, as an example, that Spanish equities had a different EUI custody tariff to other international equities held through EB by EUI, and this could be the same for Irish equities.

The Committee noted that the EUI Board would be considering the EUI tariff review at its board meeting on 11 December 2019 and that the Committee had the ability to directly provide an advisory and non-binding opinion, as per CSDR, for the Board's consideration at that meeting. Further bilateral engagement to discuss the principles of the EUI tariff review would continue in the interim. It was also noted that the UK User Committee would consider the matter at their forthcoming meeting on 5 November 2019. In conclusion, the Chair asked the Committee Members for their view on whether the Committee should offer a non-binding opinion and it was **UNANIMOUSLY AGREED** that it should. It was **FURTHER AGREED** that the Chair should take the lead on progressing this, co-ordinating as appropriate with the Committee and, if necessary, with the UK User Committee.

8. Post-Brexit CSD and Settlement

Update from Market Implementation Group ("MIG") on Longer Term Settlement Solution
The Chair led the discussion regarding the longer term CSD and settlement solution post-Brexit for the Irish market. Since the last Committee meeting in June, there had been in-depth interaction and involvement across the market with numerous MIG and SteerCo meetings held, with focus currently being on finalisation of the investor service description, progressing the Registrar service description

and realising the legislation to facilitate migration. Additionally, various other constituency and broader market workshops had been held as well as numerous bi-lateral stakeholder meetings.

The Chair noted that the Irish Finance Minister had published the draft Bill the previous week, with possible enactment by end of December. However, this timeline was not guaranteed and individual schemes of arrangement continue to be the alternative in the absence of the finalised primary legislation being available in time. There was further the Brexit related uncertainty, but the Authorities were very clear that migration had to occur by the end of March 2021. The Revenue Commissioners ("**RC**") had approved the proposed Stamp Duty process, with live discussion ongoing, as well as with AFME. In general, it was noted that there was a far greater level of awareness and buy-in, a much increased appetite for change, with significant progress being achieved on the migration project.

The Chair advised that there had been continued engagement across all market constituencies and also the Issuer community. He outlined the approach for iETFs, which operated to a different timeline to equity migration, under the iCSD model. Most ETF issuers had decided to migrate to iETF, and landing spots for migration had been communicated to the market by EB.

The Chair noted the criticality of the Registrar community, remaining key to the hybrid model regarding non-CSD holdings. Of the six Registrars for Irish securities, three were actively engaged. The remaining three were the smaller Registrars with very limited Irish activity and who had now been engaged regarding the migration. The Registrar project component involved a large technical element, to include the use of SWIFT and with many existing processes requiring change. Avoiding any potential service disruption was of key importance and the overall risk management approach sought to minimise this risk, with *inter alia* a real focus on both the overall project plan and the detailed migration plan.

A Committee Member noted that the operational specifications regarding dividends and corporate actions were not yet available and accordingly, the Registrars were unable to complete their analysis until these were provided. This created further difficulties as other stakeholders would have to review these in advance, and assess the practicalities for implementation. Further, on the Custodian side, AFME had discussed dividend withholding tax ("**DWT**"), for which a solution had yet to be fully formulated. The Chair noted the points, and that in the meantime, there had been strong engagement, including with AFME on an ongoing basis, Euronext (settlement to EB) and the LSE (direct settlement to EUI). It was also noted that the LSE had been very active among the Irish Issuer community, expressing contrary views on migration, the basis for these views was queried and the role of Euronext in seeking to actively counter some of the LSE messaging was also highlighted by the Committee.

With regard to the legal constituency, the Chair noted there had been focus on DIs and CDIs. There were differing legal views, on which clarity was required, and the Committee agreed that obtaining this clarification was a priority.

Ms Sumbultepe noted the point raised regarding corporate actions. EUI was working on the Stamp Duty issue and would revert with a plan to suit all market participants. There was further the legal considerations being given to DIs. In respect of a full DWT service, this was not currently facilitated for CDIs through EUI, although this was presently being considered through a Group level project. A Committee Member added that DWT was not an issue in the EB model in the case of a single currency, but that DWT might not be available in the case of currency election.

A Committee Member, on behalf of the Issuer community, raised concerns regarding the need to have as much clarity as possible for the forthcoming AGM season, the tight timeline and whether the go live date of March 2021 was feasible, as well as a lack of full clarity on the Registrar element of Issuer costs. The Committee noted that cost was a concern across the market but also noted that as service descriptions were finalised and as the overall project progressed, that the necessary clarity on costs should emerge.

In concluding the discussion and focussing on next steps within the project, the Chair stated there further workshops and bilateral meetings were scheduled for the coming weeks. There was a general willingness to be pragmatic, an openness to make the necessary change, and to seek a workable and effective solution while being fully aware of the tightness of the overall project timeline. In this context, he encouraged continued engagement by all stakeholders, welcomed the increased momentum in the project and noted that the Authorities were on notice that passing into law the Migration Bill by year end remained critical to facilitate the migration.

9. CEO Update

Mr Elms presented the CEO Update and reported that production stability remained consistent, with system availability remaining above the annual target at 99.8%. There had been two BSC impacting system outages in September. These included a CREST settlement outage on 17 September, due to the erroneous deployment of an incorrect policy to a Euroclear firewall. The second was due to a delay to the start of the CREST system on 30 September, and which occurred due to the start-up scripts not executing correctly. The Committee noted the CEO report and raised no further issues in relation to the outages as explained by Mr Elms.

10. Update to EUI Balanced Scorecard ("BSC")

Mr Elms presented the updates to the EUI BSC to the Committee, for their review and feedback. The proposal included the addition of five extra KPIs to the two currently used, and to set a weighting against each KPI that reflected how EUI perceived the impact to clients. EUI had chosen these seven KPIs as being the most important in the service EUI offered to its clients. The new BSC would be reported to the Bank of England (the "**BoE**"), as previously, and with the proposal that the BSC target of 99.80% would remain unchanged.

In response to a question from the Chair, Mr Elms provided details as to the seven proposed KPIs and their weighting distribution. It was intended to utilise the updated BSC from 1 January 2020. The Committee noted the update and indicated its support for the change.

11. Internal Audit ("IA") Presentation

Mr Zapita presented the audit findings related to the topics covered by the Committee mandate. This was a CSDR requirement and in the provision of this information, it was ensured that it did not give a competitive advantage to any of the Committee members.

Mr Zapita explained that in co-coordinating the EUI audit plan, all audits falling under the remit of CSDR Article 52 had been incorporated, with 20 identified. Of those, three audit findings had been deemed as relevant to report to the Committee, each of which were rated as medium and with no significant findings. Accordingly, management had one year for resolution of the matters identified, in accordance with the medium rating under the EUI rating calibration. The control issues raised would be tracked by IA in the internal repository system and would not be closed until IA had validated their resolution.

Mr Zapita provided details regarding the three audits affected:

- ***EUI CREST Settlement:*** This included assessment of operational controls, the underlying system and supporting operational processes. While there were no concerns on the operational side, a medium control issue was raised to improve some IT controls, as the CREST recertification processes did not cover recertification of all generic users. IA were satisfied with the management response.
- ***Physical and Environmental ("P&E") Security of Data Centres:*** The data centres were outsourced to Group, but with IA's focus being on the controls from a P&E perspective. Three medium control issues were raised. The lack of a formalised legal oversight to pick up matters did not affect EUI specifically but was Group wide.
- ***Tactical Tools:*** This related to the lack of a standard risk assessment methodology ("**RAM**") to assess the impact that tactical tools had on Business and IT systems. Management utilised the Euroclear RAM to assess all tactical tools and action plans were being put in place to mitigate identified risks.

With regard to the IA function in EUI, the Chair queried if they had recourse to resourcing externally or intra-Group as may be required. Mr Zapita stated that the IA function was outsourced to ESA but he oversaw the outsourced element for EUI, alongside the Deputy IA. He further conducted audit planning for EUI. Mr Elms added that there was recourse to external consultants for specialist areas, such as cyber. The Committee noted the approach of IA and the audit findings arising, and the Chair thanked Mr Zapita for his report.

12. Product and Service Update

Mr Sumbultepe advised as to the continued strong focus on the EB migration. From an EUI perspective, this was centred around the impact on EUI services and necessary enhancements .

13. CSDR Update

Mr Pugh provided an update on CSDR. EUI's CSDR application was still progressing with the BoE and for which they had provided some feedback. Work continued on actions. The granting of the CSDR licence would likely carry to the first half of 2020 as once the Bank deemed EUI's application complete, an internal governance process at the Bank would be required to finalise the grant of authorisation.

Mr Pugh advised that work continued on CSDR settlement penalties. The European Central Securities Depositories Association ("**ECSDA**") had published a Settlement Discipline framework, which would be iteratively updated, to assist in developing a framework to enable pan-European CSDs to operate in the same way. ECSDA were also in discussions with the European Association of Clearing Houses ("**EACH**") with regards to their issues regarding Article 19 and the proposed collection method for penalties relating to CCP transactions. It was expected that further discussion with ESMA will be required before any agreement can be reached.

With regard to the settlement penalties timeline as advised at the previous meeting, Mr Pugh advised that the 'Go Live' date was formally still 14 Sept 2020, however, all CSDs had agreed to align to T2S, which would not be ready to implement the regime until required message changes had occurred in the November SWIFT release this potential date change would require to be agreed and formalised by ESMA. Given the significance of T2S to the EU markets Euroclear were progressing assuming the date would be moved, but would still be able to 'Go Live' in September if required.

In the interim, all new transaction fields, as required for CSDR, would be incorporated into the system in the CREST November software release. The buy-in system, however, would not be developed until a later date. Mr Pugh stated that EUI would produce a high level communication for clients regarding settlement penalties and how they would operate in practice, over the coming weeks.

Mr Pugh continued to provide details regarding the messaging functionality to be provided for settlement penalties, and the manner in which this would be facilitated, together with reporting capabilities, emphasising that there would be no reporting through the CREST system but that all settlement penalty reporting would be direct from the Group Communications Hub.

Mr Sumbultepe left the meeting.

The Chair agreed that greater clarity was required and queried whether the individual level assessment had yet been completed, with the go live deferral date of 23 November 2020 remaining subject to ESMA confirmation. A Committee Member noted that until EUI was in a position to confirm the reporting required, the market participants could not commence in-house builds. Mr Pugh agreed, with the main challenge remaining around buy-ins. He noted the additional challenge provided by Brexit and the political dimension in this regard.

14. Committee Effectiveness Review – Launch of Process

Ms Feely informed the Committee that the self-assessment Committee Effectiveness questionnaire would be circulated in early course for their completion. The findings would be presented to the next meeting of the Committee.

15. Date of 2020 Meetings

Ms Feely confirmed that dates were currently being finalised in respect of the 2020 meetings and would be communicated to the Committee in early course.

16. Any Other Business

ACTION: The Chair invited the Committee to propose agenda items of relevance for the next meeting. The Committee requested the inclusion of SRDII – **Mr Twemlow**

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

Signed: Brian Healy
Chair