

PUBLIC

Minutes of the Meeting of the Irish User Committee of Euroclear UK & Ireland ("Irish UC" or the "Committee") held on 10 September 2018

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

Apologies: Donald Halligan; Sinead Kelly

Extended invitees: Eric Bey; Niall Gibney; Mary Lyons; Michael Touzeau.

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

1. Welcome

The Chair welcomed Committee members and attendees to the meeting.

2. Conflicts of Interest

Mr Colgan noted that Clearstream had contacted CRH to arrange a meeting of issuers to discuss potential long term solutions for Irish securities settlement following Brexit.

3. Proposed appointment of new Committee members

The Committee noted that Ms Claudine O'Connor of the Central Bank of Ireland was moving to a new role within the Central Bank and would step down from membership of the User Committee with immediate effect. The Chair proposed that Mr Robert Davis of the Central Bank be considered for membership of the Committee and provided an overview of his background and experience.

The Chair recommended the proposed appointment of Mr Davis and the proposal was seconded by several members of the Committee. The Committee unanimously **approved** the appointment of Mr Davis as a member of the Committee with immediate effect and expressed its thanks to Ms O'Connor for her contribution to the Committee.

The Chair proposed that Ms Mary Poole, Vice President and Head of Custody Ireland for JP Morgan Ireland, be appointed as a member of the User Committee to represent the custodian sector. The Chair provided a summary of Ms Poole's background and experience and recommended her appointment to the Committee. The proposal was seconded by a number of Committee members and the Committee unanimously **approved** the appointment of Ms Poole as a member of the Committee with immediate effect.

Mr Davis and Ms Poole joined the meeting and roundtable introductions were made.

The Chair provided a brief market update, noting that Brexit considerations remained the key area of focus. A number of discussions had taken place since the last User Committee and all organisations were considering their respective positions. The Chair noted that the political landscape remained unclear.

The Chair reminded the Committee that Euroclear had published a consultation paper in August setting out the short-term considerations. The Chair noted that the longer term position remained uncertain and Euronext and Euroclear would provide an update to the meeting.

4. Approval of minutes for the meeting held on 31 May 2018 and matters arising

The minutes of the meeting held on 31 May 2018 were approved.

5. Post Brexit CSD and settlement arrangements

5.1 Short Term arrangements

Mr Twemlow led a discussion of the short term settlement arrangements for Irish securities and Euro settlement in the period immediately following Brexit. He drew the Committee's attention to the Euroclear consultation document published in August which:

- set out EUI's understanding of how it might continue providing Irish and Euro services in both soft Brexit and hard Brexit scenarios;
- sought feedback from participants and issuers on their planning, including whether they needed particular support or assistance.

The Committee noted that the deadline for consultation responses was 27 September 2018 and Mr Twemlow encouraged Committee members to respond.

Mr Twemlow reminded the Committee that the situation was subject to dependencies outside Euroclear's control and he confirmed that Euroclear continued to engage with the various authorities. He noted Euroclear's view that the authorities were receptive to EUI's desire to continue to support the Irish market in the short term; however, Euroclear did not expect clarity in the near future.

Mr Trundle added that he had held a number of senior level discussions with representatives of the various authorities at the recent Eurofi Financial Forum in Vienna. He confirmed that, whilst the mood music was encouraging towards EUI providing a short-term solution, the wider political context made it unlikely that certainty would be forthcoming in the near future.

Mr Trundle reminded the Committee that clarity was sought on two issues:

- EUI would be permitted to continue to act as the CSD for Ireland following Brexit. This would include an authorisation from the European Commission, on the advice of ESMA;
- the ECB would agree that EUI could continue to have access to T2 payments to provide the euro leg of settlement. The Central Bank of Ireland would need to make this request.

Mrs Stenson added that there was a clear link being made between the short term and longer term solutions and that the authorities expected to see progress on the long term solution as part of its considerations of the short term position. A number of Committee members concurred.

In response to a question from Mr Colgan, Mr Twemlow confirmed EUI's intention to continue the service as it was today, provided that EUI was permitted to do so.

The Chair summarised the current position, noting the significantly increased interaction with the authorities in recent months, together with extensive bilateral engagement by the Irish firms and issuers. The market had stressed the importance of continuity of service as of the Brexit date and the authorities appeared to agree. The situation would inevitably be easier in a soft Brexit scenario.

The meeting noted the expectation of the Irish authorities that the market would determine the long term solution and that Euronext would take the lead. Mr Gibney confirmed that Euronext had taken the lead and that the development of a long term solution was also key to managing the short term risk.

5.2 Long term solution

Mrs Stenson reported on feedback from recent discussions with market participants and others regarding the potential long term solution for Ireland and while noting the clear desire of the market for continuity and its broad acceptance of change she also noted that no definitive consensus had yet emerged. She confirmed that Euroclear remained committed to Ireland, was supportive of the discussions and was collaborating closely with Euronext. She added that Euroclear would also need to follow its own review and governance processes.

Mr Gibney stressed that the review of the long term solution for Ireland was being governed at the highest levels in Euronext. The authorities had made clear that the long-term CSD solution for Ireland must be Eurozone-based. Accordingly, the long term solution could not be CREST, although cross-border settlement should remain possible.

Mr Gibney explained that, following its engagement with the authorities, Euronext had undertaken a detailed analysis of potential settlement options to arrive at its proposed long term solution for consideration. The key elements of the solution were that it would be:

- Eurozone-based;
- multicurrency;
- have cross-border links with CREST;
- minimise migration risk and effort for participants.

Euronext's conclusion was that Euroclear Bank would be best placed to provide the long term settlement solution for the Irish market. The Department of Finance and Central Bank of Ireland had agreed to Euronext continuing to engage with Euroclear Bank to assess the feasibility of the solution. The proposal was also subject to Euroclear's own governance procedures and final agreement of the authorities.

Euronext intended to engage further with the market during September/October, with a view to building market consensus and to reach a defined solution by mid-October.

An extensive discussion of Euroclear Bank as the proposed long term solution took place and the following matters were raised:

- *name on register*: several Committee members expressed concern that Euroclear Bank did not offer "name on register". Mrs Stenson replied that Euroclear Bank would work with the market on issues such as this, but stressed that Euroclear Bank expected the Irish market to move towards the Euroclear Bank model rather than vice versa. Mr Trundle added that other potential solutions were likely to raise similar *name on register* issues;
- *Central bank money versus commercial bank money*: it was noted that Euroclear Bank offered a commercial bank money settlement service and that this would need to be further reviewed;
- *Engagement with the market*: strong views were expressed by some members of the Committee that there had been insufficient engagement with the market and that there should have been a wider, independent assessment of the various proposals considered by Euronext. Mr Gibney summarised the process followed by Euronext to analyse four different long term proposals, including the proposal from Euroclear Bank.

One Committee member challenged whether there had been a sufficient step back and consideration of what would be best for the Irish market. The Committee noted that other proposals were being made to the market by different providers and that market participants would want the opportunity to consider and compare these alternatives. It was felt that, there had not been sufficient consultation with the issuer community with regard to all possible proposals. Mr Gibney replied that Euronext had conducted a detailed analysis, based on a set of criteria for the long term model previously established by the User Committee. He underlined that it was Euronext's recommendation, subject to market consultation, that Euroclear Bank was its preferred solution.

Mrs Stenson commented that she welcomed the open and transparent conversation. She referred to the previous stated position of Euroclear that it was not for Euroclear to take a leadership role as various options were available to the market; accordingly, Euroclear had participated in the process but was not in the lead. There was now considerable time pressure and Euroclear also wanted clarity in order to assess whether it should continue to invest in its analysis. She added that it was clear that the market needed more information on the Euroclear Bank model and suggested that Euronext might lead market workshops for Euroclear to be able to outline the model and take market input on it. Mrs. Stenson noted that there would not be a business case for Euroclear Bank if there was not a full market commitment to move to that solution.

Mr Gibney repeated that the authorities required Euronext to conduct an analysis and bring a recommendation to the market for consultation. Euroclear Bank was currently its preferred solution, but this was not yet a confirmed solution as a consultation period would now follow, In addition, Euroclear's own governance process needed to be followed and input and comfort from regulatory authorities would also be necessary.

The Chair reminded the Committee that the authorities had put the onus on Euronext to bring a solution and as time was running out, strong market engagement was now required to determine the long term solution. Mr Farrell noted that a meeting of the Market Implementation Group was being convened to discuss Euroclear's consultation paper and the agenda would now be widened

to include consideration of the proposed solution. Euronext would attend but Euroclear would not be present. The engagement of other possible CSD providers in the long term, specifically Clearstream and the SETL/Computershare potential proposal, was also considered and was noted as forming part of the Euronext analysis.

The Chair summarised the strong sense of the Committee of the need for a clear consultation process led by Euronext and full transparency before any final proposal could be presented to the authorities.

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

The Committee noted the CEO Report and Mr Trundle highlighted the year-to-date system performance of 100% service resilience and 99.93% settlement availability (target of 99.8%). He provided an overview of the outage that occurred on 8 August 2018.

Mr Trundle summarised the process being developed to meet the CSDR requirement to share relevant audit findings with the User Committee. He also provided an overview of the findings from the recent audit of Euroclear's recovery, resolution and wind-down plan (RRWP) and the actions underway to further develop Euroclear's RRWP.

The Chair noted that this was the first occasion on which the User Committee had seen audit findings and requested an overview from the Head of Internal Audit of its overall audit programme. **Action:** Ms Parker to coordinate for a future meeting.

Mr Trundle updated the Committee on the status of the USD project, which was progressing on track and was expected to go live on 1 October 2018. Once launched, EUI would be the first foreign institution to have direct access to the Federal Reserve Bank of New York and to offer US dollar settlement in central bank money.

7. CSDR Update

Mr Pugh provided an overview of EUI's progress towards filing its CSDR application.

Mr Pugh also updated the Committee on the proposed CSDR Settlement Discipline Standards. He noted that the European Parliament and Council phases had closed and the Standards were currently being translated. Publication could therefore follow before the end of the month and the Standards would come into effect two years later (i.e. September 2020). Mr Pugh confirmed that work continued internally to develop the required technical changes to the EUI system.

In response to a question from the Chair, Mr Pugh confirmed that, once published, he expected there to be a programme of market dialogue and preparation for the implementation of the new Settlement Discipline Standards.

8. Product Update

Mr Sumbulpe provided an overview of the product management team's current areas of focus:

- managing the potential Brexit impacts on EUI;
- assessing the CSDR Settlement Discipline Standards impacts on EUI;
- a Corporate Actions White book would be published later in the year;
- EUI's three to five-year strategy, which was currently undergoing internal governance;
- working with Euronext Dublin on changes to the CCP model.

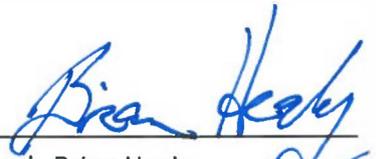
He added that work on a possible triparty solution for EUI remained on hold due to other business priorities.

The Committee had no further questions.

9. AOB

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

Date of Next Meeting – 13 November 2018



Signed: Brian Healy 