



*Post-trade made easy*

# Euroclear plc

## Annual Report 2015

# Our strategy to support the evolving capital markets

Euroclear is committed to supporting its clients in an operating environment that is being shaped by two major trends. First, market authorities and regulators, particularly in Europe, have played an increasingly active role in defining capital markets since the last financial crisis. Secondly, over the medium term, globalisation continues to be a major driver of economic growth.

Our ambition remains to reduce risk and complexity for the market as well as reducing clients' costs and improving operating efficiency. The group continues to invest in regulation-driven initiatives that ensure compliance with the market infrastructure regulatory framework and foster open access.

Clients and other market participants are seeking greater access to liquidity and collateral mobility, and the operational benefits of increased process automation. We continue to invest in developing products and services that fulfil these evolving requirements.

## Investing in our European franchise

Europe is becoming a single marketplace as a result of a broad range of regulations that impact every facet of its financial markets and, in particular, through the development of a Capital Markets Union (CMU). The post-trade sector has already taken some important steps towards becoming a single market, with the new CSD Regulation (CSDR) providing a single, pan-European rulebook for the sector, while the launch of the ECB's TARGET2-Securities (T2S) platform will provide a single settlement environment for the Eurozone.

The longer-term effects of the many new regulations that have been implemented since 2008 continue to

drive the operating environment. The cost of regulatory compliance and the de-leveraging of balance sheets have spurred the quest for further operating efficiencies and cost savings. This, in turn, is driving market participants to consolidate and rationalise market access, and embrace services that help realise latent efficiencies.

At the same time, authorities have been playing a more active role as market participants since the financial crisis. Most notably, the ECB continued to undertake its quantitative easing programme, while moving interest rates beyond their historic low levels and into negative territory.

These unprecedented developments, along with continued historically low interest rates and meagre economic growth in Europe, have proven a further challenge to clients, prompting many to adapt their approach to funding and collateral management activities.

### Capital Markets Union

On 30 September 2015, the European Commission published its Action Plan for the CMU. The plan sets out a wide range of steps that aim to remove barriers between investors and businesses, through better integration of Europe's capital markets. In addition, the Commission began an important review of the cumulative impact of recent legislation.

Although the post-trade environment is not the central focus of the plan, there are potential implications for the sector in two core areas. First, the Commission will gather evidence on the main barriers to the cross-border distribution of investment funds. Secondly, it will take forward previous work to clarify securities ownership and conflict of law rules. Euroclear fully supports the Commission's plans to efficiently link savings with growth, while enhancing financial stability.

### CSD regulation (CSDR)

CSDR not only introduces a complete review and standardisation of regulation that applies to (1)CSDs in the European Union, but also standardises settlement cycles and settlement discipline procedures across Europe.

In 2016, CSDR will be a major focus for the group as the Euroclear (1)CSDs will apply for authorisation under the new regulation. CSDR will also require changes by our clients to comply with record keeping requirements, in particular. The introduction of standardised settlement discipline and buy-in regimes across Europe will occur in mid-2018. Euroclear is well advanced with its CSDR implementation projects and detailed discussions with regulators are underway.

### TARGET2-Securities (T2S)

The launch of the T2S platform will significantly alter the European post-

trade landscape. In June 2015, the first wave of Eurozone CSDs successfully migrated to T2S.

In October 2015, Euroclear announced that the ESES CSDs required more time than originally provided to ensure a safe and stable migration to the T2S platform. This delay was caused by challenges faced in progressing the ESES CSDs' migration to the T2S platform. Since the announcement, the group has worked closely with the ECB and wider CSD community to collectively develop a revised migration schedule.

Under the revised plan, the ESES CSDs will migrate in September 2016, providing the necessary time to safely migrate to the T2S platform and support clients in Belgium, France and the Netherlands throughout this transition. The migration of Euroclear Finland, the remaining CSD in the Euroclear group that will move to T2S, is scheduled for September 2017.

Euroclear is fully committed to the T2S project and has implemented a range of measures to secure its delivery, including additional investment in dedicated resources.

Euroclear has sought to support the readiness of domestic markets, through the provision of documentation and close collaboration with clients. In October 2015, the group began the important step of community testing with ESES clients, with a further testing period scheduled for early 2016.

In the T2S environment, Euroclear will provide the same level of asset servicing across asset classes, regardless of the service access option and the asset

location. The group will offer a range of harmonised services across all T2S markets, despite the continuing co-existence of varying market practices.

#### **Investing in the Nordics**

As part of Euroclear's investment in the broader European franchise, and in preparation for T2S, we have also been replacing Euroclear Finland's entire securities processing infrastructure with a new settlement system, known as Infinity. Infinity's first launch, comprising its fixed income system, was successfully completed in February 2015, with further developments scheduled for the year ahead.

We are also investing to replace Euroclear Sweden's platform, with an agreement reached to proceed with the Swedish Market Advisory Committee, in a move that will bolster the Swedish financial market's competitiveness. This follows a period of extensive market consultation conducted over the year. The new platform will leverage the investments made in Finland, bringing scale efficiencies to both markets.

In 2015, new chief executive officers were appointed for both Euroclear Finland and Euroclear Sweden to progress the opportunities that exist in these markets in the years ahead.

#### **Optimising pan-European liquidity and collateral management**

The investments that we are making in our European franchise are aimed at helping clients to further optimise their liquidity across European markets.

We have already completed a number of investments to increase interoperability between Euroclear Bank and the ESES CSDs. Once the

ESES CSDs' migration to T2S has been completed, Euroclear's clients will benefit from access to both global commercial and European central bank liquidity, a unique proposition that will enable clients to improve management of their short-term liquidity requirements.

In addition, €GCPlus, which successfully launched in 2014, enables clients to manage their medium-term funding requirements using standardised baskets of securities, complementing the global collateral management services offered through Euroclear Bank.

#### **Realising opportunities in the global capital markets**

As an open financial market infrastructure, Euroclear supports the evolving requirements of participants as they look to benefit from the opportunities created by globalisation and an increasingly interconnected global economy.

#### **Global collateral management**

Financial market participants are increasingly demanding collateral that can be mobilised across borders and time zones. With new global regulations in the un-cleared, over-the-counter (OTC) derivative market coming into force in 2016, demand for collateral is poised to accelerate in the years ahead.

A key tenet of our strategy has been to support the financial market's requirement for a neutral, interoperable utility to source, mobilise and segregate such collateral. This led us to launch the Euroclear Collateral Highway in 2012, the world's first open architecture global infrastructure for collateral management.

The Collateral Highway provides a comprehensive solution for managing collateral, offering clients a complete view of exposures across the full spectrum of asset classes. In addition to more traditional collateral management functions (typically repos, securities lending, derivatives and access to central bank liquidity), our range of collateral management solutions includes dedicated services for corporate treasurers, and a specialised equity financing service. By the end of 2015, average daily collateralised outstandings on the Collateral Highway reached €1,068 billion, up 20% on the prior year.

Our joint venture with the Depository Trust & Clearing Corporation (DTCC), DTCC-Euroclear GlobalCollateral Ltd, is connecting two of the largest pools of collateral to provide a truly global, end-to-end collateral management solution. By leveraging our European OTC derivative solutions, we will enable the automatic transfer and segregation of collateral, through DTCC-Euroclear GlobalCollateral, based on agreed margin calls relating to OTC derivatives and other collateralised contracts.

In 2016, we will begin to rollout GlobalCollateral's collateral margin utility, bringing unprecedented operating efficiencies to market participants and improving the stability and soundness of financial markets.

In addition, we took a further step to consolidate our collateral management offering, through our investment in AcadiaSoft, an industry-leading provider of electronic messaging for the OTC derivatives market.

### **International markets**

Across the globe, growth economies are establishing international market infrastructure links to attract foreign investors, to help fund long-term development needs. At the same time, international investors are seeking opportunities to diversify and increase the profitability of their investments around the world, particularly during a period of historically low yields in Europe and North America.

*Over the course of 2015, a number of banks added 'Euroclear eligibility' as a criteria for inclusion in their emerging market bond indices, further illustrating the strength of our global franchise.*

To this end, we made further progress in bringing benefits to domestic capital markets that might otherwise have more limited access to global participants, enabling more efficient capital flows while seeking to provide stability in the domestic markets. Over the course of 2015, a number of banks added 'Euroclear eligibility' as a criteria for inclusion in their emerging market bond indices, further illustrating the strength of our global franchise.

Asia is widely expected to be a driving force of global economic growth in the coming decades. As an open post-trade infrastructure, Euroclear is committed to supporting the growth and stability of the region's financial markets, building on an unwavering presence in Asia for over 25 years. Euroclear was delighted to be recognised as CSD of the Year

in The Asian Banker's Financial Market Awards 2015.

During the course of 2015, we established a partnership with the China Construction Bank in support of the offshore Renminbi capital market.

Our increased focus on growing the Asia Pacific franchise was demonstrated by Frédéric Hannequart's relocation to Asia in his continuing roles as Chairman

of Euroclear Bank and Euroclear UK & Ireland, and the group's Chief Business Development Officer. The group also established a new position of Head of Government Relations and Strategy for Asia, based in Hong Kong. These moves allow us to further develop the open and collaborative approach that has helped the group become a trusted and relevant partner for many of the world's authorities and market infrastructures.

We made further progress in strengthening our franchise around the world, with continued success in bringing 'Euroclearability' to domestic capital markets. We took an important step by reaching agreement with Indian authorities to provide access to India's government bonds through our platform. We also supported Mexico in the launch of a corporate bonds asset

class, Cebures, following the setup of that market's link to Euroclear in late 2014.

### **Global funds**

Funds are increasingly the means by which investors are choosing to participate in international markets, and a way for issuers to efficiently access a global investor base.

Through its expanding network of funds markets, Euroclear is establishing itself as the place for funds, providing a single entry point for the effective distribution of cross-border, offshore and domestic funds.

In early 2016, we launched Euroclear FundsPlace, a new umbrella brand for our fund solutions. Our range of trade and post-trade services for funds is fully automated, to drive out the cost, risks and complexity associated with the manual processing of fund trades. These services include order routing, account opening, settlement and asset servicing, providing access to a network of over 900 fund administrators.

In Europe, we are now one of the largest providers of fund processing services with over 12.7 million orders routed through our platforms in 2015. Our fund services have continued to grow in the Swedish market, following the launch in 2014 of a link from Euroclear Sweden to FundSettle™. In the UK, we have been supporting clients in achieving compliance with the new Clients Asset Sourcebook regulations for their own client reporting.

In 2015, we further expanded our network outside of Europe, opening an account with Hong Kong's Central

Securities Depository, the Central Moneymarkets Unit. This opening coincided with a decision by Hong Kong and China's regulatory bodies to allow eligible Hong Kong-domiciled funds to be sold to retail investors in China. Qualifying Chinese funds will also be available to the retail investor base in Hong Kong. As a result, Euroclear Bank clients will be able to access China-domiciled funds through FundSettle™, as well as Hong Kong-domiciled funds.

In addition, working closely with the China Construction Bank, the group supported the launch of the first ever RMB-denominated money market international ETF, listed in London in March 2015. This was followed in June by the first in mainland Europe, listed in Paris.

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We also made further progress in supporting existing users of the international ETF structure in 2015. BlackRock, the world's largest provider of ETFs, was the inaugural issuer of international ETFs in 2013. With investors from across European markets benefitting from the simplified issuance structure, BlackRock migrated another 20 ETFs to the international form, in the first ever corporate action of its type.

### **Simplifying the client experience**

Clients around the world expect a user-friendly client experience, and we continue to meet this demand through the growth of our EasyWay™ communication tool. With the launch of new corporate action and settlement functionality in the first quarter, as well as a new more user-friendly and mobile compatible web interface, client uptake for EasyWay™ increased substantially in 2015. There are now over 300 clients using the service, with users ranging from investment banks to corporate treasury teams.

Launched in 2012, in close collaboration with many of our clients, EasyWay™ allows users to work in real time through dashboards, alerts and intuitive navigation.

Over the coming year, we plan to further enhance the settlement and corporate actions dashboards, as well as additional collateral management features through EasyWay™, to create an unparalleled digital client experience.

[euroclear.com](http://euroclear.com)

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