

# Euroclear plc

## Annual Report 2016



*Post-trade made easy*

# Our strategy for evolving capital markets

Euroclear’s strategic vision is to remain a leading partner for the global capital markets, by connecting our traditional European core to the world’s financial markets and by providing services that improve efficiency and meet specific client needs.

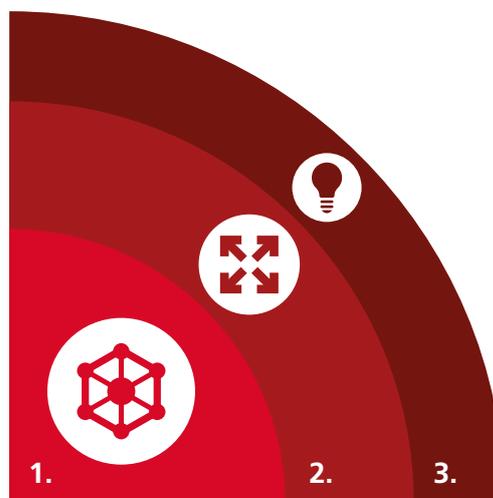
In an evolving financial market context, shaped by an uncertain economic and political environment, market participants seek to work with a trusted market infrastructure. In this capacity, we offer our clients operating stability and resilience, greater collateral mobility and access to liquidity, and higher levels of process automation.

The Euroclear group is committed to helping its clients navigate the rapidly changing operating environment and continues to invest in initiatives that ensure compliance with regulatory frameworks.

In addition, we are also investing in new opportunities to develop innovative, value-add solutions that ensure our long-term relevance to clients. Such innovations may be enabled by new technologies – for example, distributed ledger technology (DLT) – and are developed either in-house or in collaboration with specialised partners.

## Euroclear’s strategy

Growing our business through newfound relevance, while maintaining our strong core



1. Strengthening our European core
2. Expand global growth initiatives
3. Explore innovative value-add solutions

## Investing to strengthen our European core

Europe has been moving towards a single regulated marketplace covering every facet of its financial markets. In line with the European Commission's plans for a Capital Markets Union (CMU), the new CSD Regulation (CSDR) brings a single, pan-European rulebook to the post-trade sector, while the European Central Bank's TARGET2-Securities (T2S) platform is gearing up to provide a single settlement environment for the Eurozone.

Meanwhile, the outlook for Europe is clouded by political uncertainty,

combined with the potential ramifications of ongoing corporate initiatives by some of the region's financial market infrastructures. Euroclear has a long-standing commitment to Europe, holding 60% of Eurobonds (principally through Euroclear Bank, the group's ICSD) and over 50% of European capital market securities across the group's seven (I)CSDs across the region.

As the operating environment continues to evolve, we continue to intensify investment that supports clients in navigating these changes, while enhancing the safety and efficiency of Europe's capital markets.

## Target2-Securities

In September 2016, Euroclear's ESES CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland) reached a significant milestone by successfully connecting to the T2S platform.

T2S is designed to increase cross-border settlement efficiency in Europe and presents new opportunities for firms to access liquidity and finance their activity more effectively.

The group has completed a number of investments to increase interoperability between Euroclear Bank and the ESES CSDs. For our clients, this means

## Connecting Euroclear's ESES CSDs to Target2-Securities

Connecting Euroclear's ESES CSDs to T2S in September 2016 represented a major test of the ECB's new platform. As Europe's largest multi-country CSD, the ESES CSDs bring approximately 40% of the total outstanding in corporate bonds, equities and funds, and 30% of government bonds for securities that will be issued in T2S.

This made it a technically challenging project, one which would require substantial levels of engagement with financial market actors, and tremendous levels of commitment and perseverance by the teams involved.

In preparing for T2S, the group sought to support marketplace readiness through the provision of documentation and an active schedule of engagement with clients, regulators and other CSDs. This included regular technical implementation forums, where clients could feed back on their experiences of the platform's functionality in a test environment, which allowed our application development teams to improve the stability of the connection.

The migration itself, which took place on the second weekend of September, went very smoothly and the group



connected to the platform at 11.00am on Sunday morning. Throughout this process we held over 25 conference calls with clients to update them on our progress, and many more in the subsequent days as we supported them through the transition.

Since then, we have continued to work closely with stakeholders to help the ECB deliver a well-performing platform ahead of future migration waves, while further investing in developing our service offering in the T2S environment.

access to global commercial and European central bank liquidity to meet short-term liquidity needs. We continue our efforts to support our clients as we strengthen our range of harmonised services for both issuers and investors across all T2S markets.

#### **CSD regulation (CSDR)**

CSDR is another important step in harmonising European financial

CSDs to provide robust market infrastructures for the markets we service.

In Finland, the group has been working to replace Euroclear Finland's entire securities processing infrastructure with a new settlement system, known as Infinity, with phase one implemented in 2015. The group is working with clients on

group settles Irish securities markets via TARGET2.

#### **Enhanced cyber resilience**

Security, including effective controls to counter cyber-crime, is an area that Euroclear has always taken very seriously, and the group has continuously invested in controls that maintain the resilience of our systems.

The financial industry has awakened to the evolving risks posed by cyber threats, which have demonstrated increased levels of complexity, sophistication and propensity to target the sector over recent times.

Given our role as financial market infrastructure, we have been at the forefront of collaborative efforts to increase cyber resilience in the industry. In addition, we have taken steps to strengthen our own cyber security capability, through the roll-out of a new multi-year programme that started in 2016.

We have already made progress in further interlinking our cyber security defences with business systems, with plans in place to develop our cyber intelligence, analytics and reporting, and to embed further our security-conscious culture throughout Euroclear.

#### **Growing relevance in global initiatives**

As an open financial market infrastructure, we support the evolving requirements of our clients as they look to benefit from the opportunities created by 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

*In Europe, we are now one of the largest providers of fund processing services with over 11.1 million orders routed through our platforms in 2016.*

markets, by providing a single, pan-European rulebook for CSDs. It involves a complete review and standardisation of rules applicable to (I)CSDs in the European Union, and also standardises settlement cycles and settlement discipline procedures across Europe.

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 is scheduled for 2019.

Getting ready for the provisions of CSDR has been a major focus for the group throughout 2016. The Euroclear (I)CSDs are preparing their applications for authorisation under the new regulation and expect to submit our filings to obtain their licenses in accordance with the official timelines, currently anticipated for the end of September 2017.

#### **Safe and stable domestic CSDs**

We continue to invest in our domestic

the implementation schedules of its remaining releases in order to ensure the delivery of a safe and stable platform, as well as connection to T2S.

We are also committed to upgrading Sweden's financial market infrastructure, while meeting its regulatory imperatives. In 2017, Euroclear Sweden will extend the functionality of its existing IT platform to meet the demands of CSDR, before completing development work on its new IT platform, known as EuroclearSafe.

The benefits of having robust market infrastructures was demonstrated by the performance of Euroclear UK and Ireland's CREST settlement system throughout the post-Brexit market volatility, a system that celebrated its 20th anniversary in 2016.

While there are no immediate operational impacts resulting from Brexit, we are working closely with Irish market participants to minimise the impact of any potential changes that may be required in the way the

regulations in the un-cleared, over-the-counter (OTC) derivatives market taking effect in 2016, the 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 their 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 2016, the average daily collateralised outstanding on the Collateral Highway reached €1,072 billion.

Our joint venture with the Depository Trust & Clearing Corporation (DTCC), DTCC-Euroclear GlobalCollateral Ltd (DEGCL), is connecting two of the most important pools of collateral to provide a truly global, end-to-end collateral management solution.

In 2016, we began to rollout DEGCL's Collateral Management Utility (CMU) as a step to support clients in complying with new OTC derivatives regulations, enabling unprecedented operating efficiencies to market participants and improving the stability and soundness of financial markets.

### Servicing 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 funds network, 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 the group's 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 account opening, order routing,

settlement and asset servicing, providing access to a network of over 900 fund administrators. As an important provider of fund processing services across Europe, we routed over 11 million orders through our FundsPlace platforms in 2016.

Meanwhile, the international Exchange-Traded Fund (ETF) structure continues to gain popularity amongst issuers and investors alike, bringing with it a simplified issuance structure and access to a global investor base. BlackRock, the world's largest provider of ETFs, was the inaugural issuer of international ETFs in 2013.

Early in 2016, BlackRock completed the migration of its entire suite of domestic ETFs to the international issuance structure, the largest ever corporate action in the ETF industry that transferred assets valued at over \$200bn. Meanwhile, State Street moved 29 ETFs to the international structure, as part of its decision to transfer settlement for 40 of its SPDR ETFs to Euroclear's FundSettle platform.

We also collaborated with a number of issuers who sought to use the international ETF structure to provide a global investor base with access to Asian markets.

Hong Kong based fund manager, Fullgoal Asset Management issued an RMB-denominated ETF in the international structure, while ICBC

*Our strategy extends beyond our strong core and growth initiatives to explore new opportunities to support our clients' evolving needs.*

Credit Suisse Asset Management International chose Euroclear Bank for clearing and settlement of its first internationally-listed China equity ETF.

In early 2017, GF International Asset Management announced the launch of an international ETF, which would be the first fund product launched by a Europe-based Chinese asset manager that gives investors access to large and mid-cap equities on the Shanghai and Shenzhen stock exchanges in China via the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme.



### **International markets**

Across the globe, growth economies are seeking 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. To this end, we made further progress in bringing benefits to domestic capital markets that might otherwise have more limited access to global participants, with the aim of bringing more efficient capital flows and providing stability to these financial markets.

Following the inclusion of the Chinese Renminbi in the International Monetary Fund's SDR currency basket, Euroclear has sought to meet the needs of its central bank and supranational clients by facilitating access to Chinese government bonds. Euroclear continues to work closely with the Chinese authorities to support their ambition of increasing international investment into China's onshore fixed income market.

In January 2017, the Chilean government announced a series

of reforms to open access to the country's domestic financial markets to international investors. This was a result of close cooperation between the Chilean Ministry of Finance and Euroclear to align post-trade processes with international standards and to set up a link with Euroclear Bank to make Chile 'Euroclearable'.

We remain in close dialogue with financial markets elsewhere in Latin America as well as other growth economies in the Middle East and Asia as we seek to support their ambitions.

This has led us to support two notable sovereign debt issuances in the course of 2016. Firstly as Argentina returned to the global debt markets with the successful launch of a \$16.5 billion bond, and then as the Kingdom of Saudi Arabia launched its first ever issuance totalling \$17.5 billion.

### **Exploring innovative value-add solutions**

Our strategy extends beyond our strong core and growth initiatives to explore new opportunities to support our clients' evolving needs.

Frequently, we are using a collaborative approach by partnering with specialised providers, particularly in financial technology, to develop solutions efficiently. For example, we have participated in working groups to explore how distributed ledger technology (DLT) might bring post-trade efficiencies to sub-optimised areas, such as London's gold bullion market.

As one of the leading providers of post-trade services, we bring a different perspective to the application of DLT. In the course of 2016, we published two studies on DLT, the first looking 'beyond the hype', while the second, which was published jointly with Slaughter and May, examines the regulatory frameworks that might be needed for broader adoption in the post-trade space.

We have also explored ways to make the post-trade sector work more smoothly. Launched during 2016, the group's partnership with Taskize, an innovative solution that helps people across financial operations to work together, has already attracted strong levels of customer interest.

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