



Euroclear plc

Annual Report 2017



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.

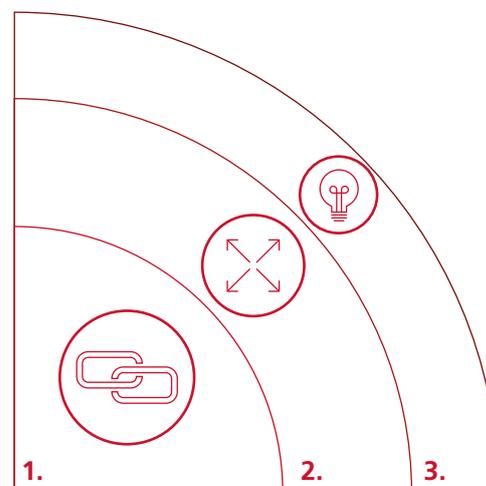
In the context of evolving financial markets, participants seek to work with a trusted market infrastructure to benefit from operating stability and resilience, greater collateral mobility and access to liquidity, and higher levels of process automation.

The Euroclear group is committed to helping its clients navigate the rapidly changing operating environment and growing need for liquidity, including through new opportunities to develop innovative, value-add solutions that ensure our long-term relevance to clients.

In addition, we are also investing in initiatives to ensure compliance with regulatory frameworks. Our ambition goes beyond compliance to fully embrace the spirit of the regulations in making financial markets safer.

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 Central Securities Depositories Regulation (CSDR) brings a single, pan-European rulebook to the post-trade sector, while the European Central Bank's TARGET2-Securities (T2S) platform now provides a central settlement environment for the Eurozone.

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.

CSDR

CSDR is an important step in harmonising European financial markets, by providing a single, pan-European rulebook for CSDs, with an aim to improve the safety and efficiency of settlement systems and processes.

Overall the effect of CSDR has been to further strengthen our approach to risk management, internal controls and governance. The changes required by CSDR further reinforce Euroclear's role as a provider of safe and efficient financial market infrastructure, while also cementing independent responsibility and accountability within the operating entities.

A significant development in meeting the new requirements has been to shift in the governance structures of the (I)CSDs. As well as increasing the number of independent directors on the CSD Boards, the transition to CSDR has reinforced the role played by the User Committees, bringing a more formal role to these client-led market advisory bodies.

Having submitted the initial applications for authorisation of the Euroclear (I) CSDs under CSDR in line with the official timelines, we continue dialogue with our regulators in each jurisdiction to complete the authorisation process. We continue to implement CSDR programmes across the Euroclear group, working with clients and partners to meet compliance with the provisions of the regulation.

Target2-Securities

Having successfully connected Euroclear's ESES CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland) to the T2S platform in 2016, we have continued to invest in new opportunities to help clients access liquidity and finance their activity more effectively.

We are making headway in our ambition to become the gateway to European markets connected to T2S. Euroclear's ESES CSDs now offer direct access in central bank money to six major T2S markets (Belgium, France, Germany, Italy, the Netherlands and Spain) as either issuer or investor CSD.

Clients benefit from access across eligible asset classes including equities, fixed income securities, domestic funds and ETFs, supplemented by a range of value-add services.

This solution went live towards the end of 2017, and we have already seen several large market participants subscribe to our solution in 2017 and early 2018.

Safe and stable domestic CSDs

We continue to invest in our domestic CSDs to provide robust market infrastructures for the markets we service, namely Belgium, Finland,

with an aim to make Infinity being one of the first CSD systems to reach the levels of European ISO standards for corporate action services. We are working with clients and the ECB on the future implementation schedules for Phase 3 to ensure the delivery of a safe and stable connection to T2S.

We have also been investing in the VPC system, Euroclear Sweden's existing IT platform as we extend its functionality to meet the demands of CSDR. Furthermore we have implemented ISO standards on the VPC system in the area of funds and corporate actions.

for non-cleared derivatives. Following the successful processing of the large number of new contract pairs for Wave 1, in September 2016, we continued to work with market participants to smoothly and successfully on-board Wave 2 clients during 2017.

Through the Collateral Highway, we support the financial market's requirement for a neutral, interoperable utility to source, mobilise and segregate collateral. It provides a comprehensive solution for managing collateral, offering clients a complete view of exposures across the full spectrum of their asset classes.

The changes required by CSDR further reinforce Euroclear's role as a provider of safe and efficient financial market infrastructure, while also cementing independent responsibility.

France, Ireland, the Netherlands, Sweden and the UK.

In preparation for the United Kingdom's departure from the European Union, we are working closely with Irish market participants to develop a sustainable, long-term solution to deal with changes required in the way the group settles Irish corporate securities via TARGET2. As such, subject to regulatory approvals, we will establish a new CSD, based in Ireland, that will share the CREST settlement system that we currently operate by Euroclear UK & Ireland.

A key focus for us has been the work to replace Euroclear Finland's entire securities processing infrastructure with a new settlement system, known as Infinity. We continue preparations to launch the second phase in 2018

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 interconnected global economy.

Global collateral management

Increasingly, financial market participants require collateral that can be mobilised across borders and time zones. The demand for collateral will only continue to accelerate, driven by the end of quantitative easing and the impact of new global regulations which require clients to post margin across transactions to reduce counterparty and systemic risk.

One area of regulatory change is the new regime for margin requirements

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 equities collateral management service. By the end of 2017, the average daily collateralised outstanding on the Collateral Highway reached €1.2 trillion with growth across business lines.

During the course of 2017, we launched our new EasyWay contract management solution. This provides collateral management practitioners with a simple and intuitive online tool to negotiate, create and amend their collateral contracts, vastly speeding up what has traditionally been a long and arduous process.

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

In 2017, DEGCL gained the necessary regulatory approvals and successfully completed pilot programmes, ahead of an expected ramp up in client onboarding for its collateral processing services in 2018.

Servicing funds

Asset managers are increasingly investing across a global marketplace, and as such are beneficiaries of our expanding international reach, including into growth economies (as outlined in International Markets). Moreover, their objectives as funds promoters are similar to that of debt management offices in enabling broad and efficient access to their issuances. Euroclear FundsPlace seeks to meet their distribution strategies by developing its range of funds-specific trade and post-trade services.

The funds industry is embarking on a period of significant evolution driven by pressures to increase transparency and efficiency throughout the investment chain, providing choice to investors with new and innovative solutions, and as new business models arise that meet the needs of an increasingly global and technologically savvy customer base. Through FundsPlace, we look to accompany the industry and meet its evolving requirements.

For example, we are actively engaged in developments to bring smarter transaction processing and Distributed Ledger Technology (DLT) solutions that creates greater transparency to support clients meet Know Your Customer and Anti-Money Laundering regulations.

Additionally, in line with our intentions to bring greater transparency to the marketplace, we implemented a number of changes to our FundsPlace pricing models. In doing so, we have

provided a more competitive offer to a number of market segments, particularly in the UK and cross-border markets where we redeveloped our FundsPlace business model to be more scalable. These changes were supplemented by a strengthened risk and operational framework for both our mutual funds and alternative businesses.

Our platform includes account opening, order routing, settlement, transparency, data mining, underlying optimisation and asset servicing. It also provides access to a network of over 1200 fund administrators, and we routed over 10.5 million funds orders through our platforms in 2017.

Through Euroclear FundsPlace, we are developing a range of trade and post-trade services for funds that meets the industry's evolving needs.

We are continuing to deliver a more flexible service while allowing clients to leverage our fully automation to reduce cost, risks and complexity associated to processing fund trades.

A major trend in the fund management industry in recent years has been the rise of passive management. We have been at the centre of innovation in the Exchange-Traded Fund (ETF) market by developing the international ETF structure.

With its simplified issuance structure, the international model is attractive to both ETF issuers and the international investor community. Today approximately 40% of the European ETF industry is in the

international form. Innovation in the ETF space continues, and we have begun to see traction in using the asset class for collateral management purposes.

During 2017, we have continued to on-board major ETF issuers to the international model. Both JP Morgan Asset Management and Franklin Templeton chose to issue European ETFs through Euroclear for the first time last year, using the international model, benefitting from our multicurrency solution and large settlement window.

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. We call this initiative Global Reach. In 2017, we made particularly strong progress in connecting with Latin American markets.

At the start of 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 cooperation between the Chilean Ministry of Finance and Euroclear to adapt post-trade processes to international standards and to set up a link with Euroclear Bank.

In July, we reached a similarly historic milestone with Peru, as Euroclear Bank and the Peruvian Ministry of Economy and Finance launched a domestic link to enable international investors to invest more easily in Peruvian local government bonds. By becoming 'Euroclearable' Peru also adapted

its capital market infrastructure to globally recognised standards. We have also continued to collaborate closely with other domestic markets to support them in reaching an international investor base.

Exploring innovative value-add solutions

Our strategy extends to exploring opportunities to support our clients' evolving needs, through innovation in both in our existing core business lines and by entering new areas that reflect our ambitions to increase safety and efficiency in global capital markets.

We believe that data solutions and information services could play an important function in bringing greater transparency and liquidity in global fixed income markets. With our ambition of enabling greater efficiency and risk management to capital market participants, we have launched a new business line, Euroclear Information Solutions (EIS).

Through EIS we will provide clients with new solutions that increase transparency

in the trading dynamics and government bonds, initially by measuring actual liquidity at an aggregated level, with further product launches planned for 2018. The EIS business line complements existing Euroclear services, including the Collateral Highway, in supporting client requirements for liquidity and collateral management solutions.

We increasingly work with specialised providers, particularly in financial technology, to develop efficient solutions. For example, we are a founding shareholder in LiquidShare, a new FinTech venture that aims to develop post-trade infrastructure for European small and medium enterprises (SMEs) harnessing DLT.

We have also continued exploring ways to make the post-trade sector work more smoothly. Launched during 2016, Euroclear Bank's partnership with Taskize, an innovative solution that helps people across financial operations to work together now has over 100 clients. We are now planning to begin offering the Taskize service via other group CSDs.



[euroclear.com](https://www.euroclear.com)

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