27 September 2018

Computershare Investor Services (Ireland) Limited
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Telephone 353 1 4475566
Facsimile 353 1 4475571
DX 211019 Beacon Court
www.computershare.com

Euroclear UK & Ireland

By email to: consultationfeedback@euroclear.com

Dear Sir/Madam

Potential Brexit Impacts: Irish Securities Settlement and Euro Settlement

We are pleased to enclose a response on behalf of Computershare Investor Services (Ireland) Limited ('Computershare') to your consultation document on the potential Brexit impacts on Irish securities settlement and Euro settlement.

In our view, it is imperative that all parties act to ensure that current settlement services for Irish equities and ETFs continue beyond the Brexit date of March 29th 2019. An interim period post-Brexit is necessary to allow market stakeholders to review and establish secure and robust arrangements for Irish securities in the medium to longer term.

Optimally, the Brexit negotiations will result in a transition period that will facilitate this result (among other consequences). However, we fully appreciate that this is a political negotiation that is outside the control or influence of Euroclear and other stakeholders. We understand that Euroclear is however exploring the potential application of 'grand-fathering' provisions under Article 69 of the CSD Regulation, to provide an interim period during which Euroclear UK & Ireland ('EUI') services can continue to be provided to Irish securities on a 'business as usual' basis. In our view, it is critical that all relevant parties, including Euroclear, the Central Bank of Ireland and the Irish Department of Finance, direct their efforts to delivering this end result and providing certainty to market stakeholders as soon as possible.

Cross-border settlement efficiency between the London and Irish markets is also a priority, given the number of Irish equities and ETFs listed in London in addition to Dublin. Notably, Ireland is the major location within the EU single market for the authorisation of ETFs and, according to the London Stock Exchange (LSE), Irish ETF trading on the LSE order book in the year to date amounts to some £13.8 billion in value.

We also note that the short term continuity of Euro settlement is fully dependent upon a Euro-enabled CSD which can only be satisfied by either the continuation of settlement within CREST for an interim period or utilisation of an alternative CSD. Crucially, infrastructure providers have indicated that a replacement model cannot be implemented before March 2019 which poses an existential threat to the future of Irish Capital Markets. It is therefore essential that the market gets visibility of the status of the grand-fathering discussions and clarity on the position as soon as possible in order to inform future strategy.

We understand from discussions at market stakeholder meetings that agreement of any transitional arrangement may be conditional on the presentation of an alternative model before the end of the year, and we have concerns over the very high risk that this will lead to a sub-optimal outcome. A determination on the grand-fathering of EUI's services for an interim period must not be delayed pending agreement on the medium to longer term solution for the Irish market, and we do not consider it feasible to require determination of the medium term approach for the market in a compressed timeframe. The current uncertainty is highly detrimental to Irish issuers and shareholders, as well as to broader market participants, and creates the potential for entities to undertake risk mitigation activities

Registered office
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

Computershare Investor Services (Ireland) Limited is registered in Ireland, Company No. 239353. Computershare Investor Services (Ireland) Limited is authorised and regulated by the Central Bank of Ireland.

Directors
A. Whyte
N. Sarkar (UK)
J. Hood (UK)
J. Reynolds

in the near term to protect their business that may prove damaging to the Irish market as a whole in the longer term.

It is essential that any replacement solution should be designed for the long term, taking into account the interests of all stakeholders, and this can only be achieved with the benefit of extensive dialogue aimed at ensuring the best outcomes for all. We do not consider that these issues can be adequately resolved in terms of their operational, technical and legal implications in this brief period and in our view a minimum 12 month period is required to allow for all options to be presented and discussed.

It is somewhat disappointing that the original Euroclear proposal for the creation of a legal entity in Ireland that could leverage the existing market infrastructure could not be developed further. In our view the proposal represented the optimal solution of preserving the status quo, and there are significant challenges in developing an equivalent solution that delivers against the core principles laid out by Irish stakeholders. The result is that stakeholders may now be faced with the imposition of a less efficient model at a higher price, and will also need to re-engineer operational processes and technical infrastructure to accommodate any replacement.

A significant impact of the move away from operating a 'name on register' CSD, as currently provided by EUI through CREST, is the risk that Irish shareholders will lose direct legal title to the securities and that issuers will lose direct transparency of their investors. These are fundamental principles which have been enshrined in Irish Securities Law since enactment and any change in arrangements will be detrimental to stakeholders. Consequently, we would urge Euroclear and the relevant regulators, including Central Bank of Ireland and Department of Finance, to prioritise further efforts to ensure that CREST settlement arrangements can continue, at least in the short term.

With regard to the questions posed in the Consultation Paper, we have provided brief responses below. We are continuing to undertake substantive analysis of the issues and engaging with clients and other market stakeholders since this issue emerged. Our view is that the solution must seek continuation of a 'name on register' CSD and including Euro settlement. In the event that 'name on register' services become unavailable, we consider that the Depositary Interest service offers issuers and shareholders the most proximate solution to preserve issuer transparency and shareholder rights.

Please contact Joe Molony at joe.molony@computershare.ie or Andy Callow at andy.callow@computershare.co.uk if you require any further information in relation to our response.

Yours faithfully

Ailbhe Whyte
Chief Executive Officer

Cc: -
CBOI
Simon Sloan - simon.sloan@centralbank.ie
Moriarty Batt - batt.moriarty@centralbank.ie
Elaine Byrne - elainem.byrne@centralbank.ie
John Geelon - john.geelon@centralbank.ie
DOF
Oliver Gilvarry - oliver.gilvarry@finance.gov.ie
Ambrose Murray - Ambrose.Murray@finance.gov.ie
Will Joyce - will.joyce@finance.gov.ie

Response to the consultation questions

Detailed below are our responses to the specific questions raised in your consultation document.

Question 1: What actions are you considering as a result of the potential impact of Brexit upon Irish Securities Settlement?

We are seeking to support clients to minimise impact for shareholders and issuer services of the consequences of Brexit: -

1. We are working with clients to develop solutions that use EUI services either in a hard or soft Brexit structure. Where securities cannot be recorded directly in a 'name on register' structure through a CSD-R compliant CSD, we propose utilising Depositary Interest (DI) services to support Irish Equity and ETF Issuers as a mechanism to preserve so far as possible shareholder rights and issuer registration structure.
2. As Euroclear is aware, as a medium term possible approach, we have held discussions with market stakeholders with a view to assessing whether there is sufficient appetite to develop an alternate Irish-based CSD solution that delivers on Irish market principles. We are also engaging with other potential CSD providers that have indicated interest in servicing the Irish market.

Continuation of Irish securities settlement is critical to the function of Dublin as a financial centre, and withdrawal of services would adversely affect a wide range of stakeholders. Consequently, in our view, actions cannot be determined in isolation without wide market support and it is critical that all stakeholders contribute to the future action plans.

As we have indicated in our introduction, continuity of Euro settlement is dependent upon a Euro-enabled CSD and recent stakeholder discussions have revealed that an alternative service cannot be established in the short term. Irish issuers are therefore fully dependent on either a transition agreement or a grandfathering arrangement to allow EUI to continue supporting Euro settlement.
In the event that an agreement to preserve direct CREST settlement does not materialise, we will make all reasonable endeavours to support the short term continuity of services.

Question 2: Does such action require the support of EUI (or another member of the Euroclear Group)? Please provide details.

In order to better inform the key decisions that need to be taken it is critical to get a clearer understanding of progress made in discussions with regulators, which impact the degree of confidence in the grandfathering option. Additionally it would also be useful to understand how much notice the market may be given in the event of withdrawal of services.

EUI needs to work with stakeholders to develop planning for mass action, which will be required if grand-fathering/transition does not apply. This will include logistical requirements and also consideration of streamlining set up requirements e.g. for DIs. As an example, provision of relevant legal opinions is a significant obstacle to the efficient creation of new DI arrangements and it would be useful to get views from the EUI legal team as to how the arrangements can be streamlined for multiple securities issues.

As it relates to Depositary Interests in the CREST system, we would also be keen to understand EUI's views with regard to the impact of CSDR Article 3(2) on the structure of any DI service for Irish securities.

Question 3: If Irish Securities Settlement ceased to be available after Brexit what would be the impacts for you?

It is not clear whether the question is posed solely in the context of cessation of settlement in EUI, or completely. We envisage that Irish securities settlement will need to be routed to an alternative settlement destination and consequently should continue to be available. It is worth noting that not all alternative settlement destinations are equal and there is a significant risk of a sub-optimal model being introduced, impacting on all stakeholders and it is essential that the broader picture is considered. Examples of potential impact to various stakeholders are listed below, but are ultimately dependent on the capabilities of any alternative offering: -

- Operational disruption (and associated cost of reengineering) – all stakeholders
- Migration challenges – all stakeholders
- Loss of legal title – issuers and shareholders
- Issuer transparency issues impacting on direct communications - issuers
- Stamp Duty assessment/collections/remittance – Irish Revenue and, as appropriate HMRC
- Disadvantages to certificated shareholders due to inefficient paper interface
- Impairment of voting capability and full corporate action participation/entitlements – shareholder and issuers
- Reduced decision making time due to imposition of an intermediary - shareholders
- Increase in custody fees – shareholder and participants

Question 4: **Is there any other information which could be relevant to an assessment by EUI of the viability of continued provision of Irish Securities Settlement?**

No further comments.

Question 5: **What actions are you considering as a result the potential impact of Brexit upon Euro Settlement?**

We are keen to understand whether Euro settlement in CREST in commercial bank money could potentially be facilitated by EUI. In the absence of such arrangements, we agree with the assessment of EUI's consultation paper.

Question 6: **Does such action require the support of EUI (or another member of the Euroclear Group)? Please provide details.**

Yes – EUI would need to establish the commercial bank settlement arrangements.

Additionally it would be beneficial to get a clearer understanding of progress made in discussions with ECB and it would also be useful to understand how much notice the market may be given in the event of withdrawal of Euro settlement. This is especially relevant in view of the fact that the terms of Dividend arrangements may need to change and will need to be communicated to shareholders in a timely manner, so that replacement payment arrangements can be facilitated.

Question 7: **If Euro Settlement ceased to be available after Brexit what would be the impacts for you?**

We would be unable to utilise CREST for receipt/distribution of Euro payments for our issuer clients (including some Issuers incorporated outside of Ireland) and would need to resort to alternative arrangements (Direct Credit/EFT or potentially cheque). This would require solicitation of fresh payment instructions, creating cost and administrative burden for Issuers, and delays in receipt of payments for shareholders.

Question 8: **Is there any other information which could be relevant to an assessment by EUI of the viability of continued provision of Euro Settlement?**

No further comments.