



London Stock Exchange Group response to Euroclear UK & Ireland consultation paper on Potential Brexit Impacts: Irish Securities Settlement and Euro Settlement

Introduction

The London Stock Exchange Group (“LSEG” or “the Group”) is a financial market infrastructure provider, headquartered in London, with significant operations in Europe, North America and Asia. Its diversified global business focuses on capital formation, intellectual property and risk and balance sheet management. LSEG operates an open access model, offering choice and partnership to customers across all of its businesses.

LSEG operates a broad range of international equity, ETF, bond and derivatives markets, including London Stock Exchange, Borsa Italiana, MTS (Europe's leading fixed income markets), EuroTLX SIM (an Italian bonds and Turquoise (a pan-European MTF). Through its platforms, LSEG offers market participants, including retail investors, institutions and SMEs unrivalled access to Europe's capital markets.

LSEG also operates today multiple clearing houses. It has majority ownership of the multi-asset global CCP operator, LCH Group (“LCH”). LCH has legal subsidiaries in the UK (LCH Ltd), France (LCH S.A.), and the US (LCH LLC). It is a leading multi-asset class and international clearing house, serving major international exchanges and platforms as well as a range of OTC markets. It clears a broad range of asset classes, including: securities, exchange-traded derivatives, commodities, foreign exchange derivatives, interest rate swaps, credit default swaps and euro, sterling and US dollar denominated bonds and repos.

In addition, LSEG operates Cassa di Compensazione e Garanzia S.p.A. (“CC&G”), the Italian clearing house, providing clearing services for a range of European securities as well as exchange traded equity and commodities derivatives.

General remarks

LSEG welcomes the opportunity to comment on Euroclear UK & Ireland (EUI) consultation paper on potential Brexit impacts regarding Irish securities settlement and Euro settlement. LSEG broadly agrees with the analysis provided by EUI on the different Brexit scenarios and the impact that each of those could have on the issuance and settlement of Irish securities.

We have carefully analysed potential impacts that those scenarios could have on the Group's business units with regards to clearing and settling of Irish securities by EUI and we have the following observations:

- LSEG anticipates and is hopeful of a market solution that allows continuity of Irish securities settlement and that the Bank of Ireland (BoI) will be able to provide dispensation to EUI for a short period of time until a viable alternative solution can be established.
- LSEG believes that provided that the issuance and settlement of Irish securities constituted under Irish Law could only be available in a certificate form, LCH would be unlikely to be able to continue to clear such securities in a hard Brexit scenario. Instead its participants would have to settle in a non-certificated form on a bilateral basis which would result in a reduction of trading activity in these lines.
- LSEG believes that all EUI instruments that are currently settled in Euros would have to be settled in GBP or USD going forwards. Ideally EUI would pursue further discussions with the Bank of Ireland (BoI) to identify ways in which Euro settlement could continue going forward.
- LSEG believes that it is in the best interests of the market to seek to retain Irish securities settlement within EUI's CREST system.

You will find below detailed responses to the question raised in the consultation paper.

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



LSEG believes that if EUI loses the ability to act as issuer CSD, and no other CSD can immediately take over, for Irish securities post-Brexit, all securities constituted under Irish law could only be issued and settled in a non-certificated form. As a result, based on current number of transactions, it will make trading impractical, even if occasionally, some large holdings could still be transferred in paper form.

We anticipate and are hopeful of a market solution that allows continuity of Irish securities settlement and that the Bol will be able to provide dispensation to EUI for a short period of time until a viable alternative solution can be established.

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

N/A

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

LSEG believes that, if Irish securities settlement ceased to be available in electronic form; LCH would be unlikely to be able to continue to clear such securities.

In the case where EUI would not be able to act as an issuer CSD for securities constituted under Irish Law, LSE would have to remove Irish equities and ETFs from the SETS central order book. Instead participants would have to settle in certificated form on a bilateral basis (uncleared SETS quotes and crosses auctions and off book trading would continue to be available on exchange). However, we must note that this would result in a reduction of trading activity on these securities.

If Irish securities settlement ceased to be offered by EUI in CREST, LSEG's preference would be to see such securities reissued into Euroclear Bank or an alternative, acceptable CSD.

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?

LSEG encourages further discussions with the Bol and the European Central Bank (ECB), to ensure that settlement in Euros remain with EUI.

Furthermore, clarity with regards to alternative solutions that could be put in place in connection with stamp duty requirements would be welcomed.

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

LSEG believes that all EUI instruments that are currently settled in Euros would have to be settled in GBP or USD going forwards.

We support EUI discussions with the Bol to identify ways in which Euro settlement could continue. This said, we acknowledge that alternative solutions including the continuation of Euro settlement within another suitable issuer CSD must be considered in the absence of another viable option.

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



LSEG believes that it is in the best interests of the Euroclear Group to be well coordinated between its entities and pursue further discussions with the Bol and the Bank of England (BoE) to identify ways in which Euro settlement could continue. This said, we acknowledge that alternative solutions including the continuation of Euro settlement within another suitable issuer CSD must be considered in the absence of another viable option.

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

LSEG believes if Euro settlement ceased to be available after Brexit, this would somehow have a limited impact the group's product offering given trading volumes in Euro are limited. We expect market participants would also look to trade increasingly in non-Euro currencies. Please refer to question 5 for further clarity.

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

LSEG would be interested in knowing what steps have been taken by EUI so far to acquire the much-needed dispensation that the Irish market requires which would provide short term stability until another option is on the table. Furthermore, we would like to understand if any actions have been taken to secure Euro settlement in commercial bank money in EUI.

We hope that you will find LSEG's input provided in this consultation paper useful and we remain at your disposal for any additional clarifications.