

Cross-Border Settlements

16 May 2024

Nicholas Pellicani, Debevoise & Plimpton

Patrick Schleiffer, Lenz & Staehelin

Paolo Carabelli, Euronext Securities Milan

James Cunningham, The Bank of New York Mellon

Stephen Fitzsimmons, McCann FitzGerald

Charlie Hodge, Computershare

Federica Munno, Gatti Pavesi Bianchi Ludovici



Agenda

- Introductions
- Overview of Settlement Systems
- Interaction between Securities Law/Markets and Corporate Law
- Cross-border Settlement Considerations
 - Hypothetical scenarios
- Regulatory Developments
 - CMU
 - Legge Capitali (Italy)
 - T+1 Settlement Transition

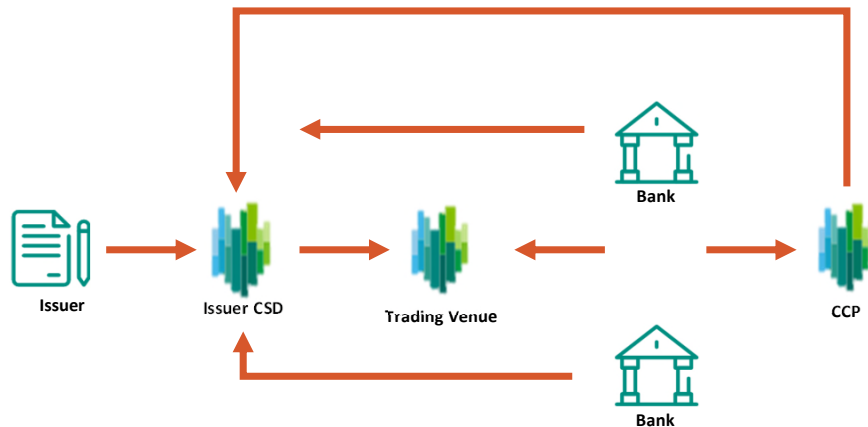
Overview

Locations – Place of:

- Listing / Trading – listing venue(s) of securities
- Issuance – location of the applicable trading venue (primary/secondary)
- Clearing – location of the exchange of documentation establishing obligations of parties (pre-settlement)
- Settlement – where custodians settle transaction (location of the CCP for applicable trading venue)

Parties/Roles:

- Central Securities Depository (CSD) – securities settlement systems and securities accounts records
- Registrars – in relevant markets for deposits/withdrawals, daily reconciliation and event management
- Passport – links settlement functions of different CSDs
- Central Counterparties (CCP) – central clearinghouse for trades (netting and novation of trades)
- Custodian – holds customers' securities
- Regulators – of security registrations and CSDs (e.g., European Union, through CSDR)



Illustrative Settlement Cycle



Role of CSDs

Overall function: To serve as a central point for, and reduce costs as between, all connections in settlements and corporate actions

Corporate Actions

- Transactions
 - Cash distributions (dividends, interest payments)
 - Securities distributions
 - Redemptions
 - Reorganizations (with or without options)
- Processing (via issuer/participants/owners)
 - Announcement
 - Ex-date (for payments)
 - Record date / last trading date
 - Payment / voting date

Transactions Services

- Registration (service to issuers)
- Safekeeping and reconciliation of securities and account maintenance (service to investors)
 - Coordination and issued capital reconciliation with registrars/transfer agents (in applicable jurisdictions)
- Settlement / payment (service to buyers/sellers)

Markets

U.S. – The Depository Trust Company (DTC)

- Custodian of securities (through Cede & Co., as nominee for DTC)
- Securities settle through participants (banks/brokers)
- Eligible securities may also be held in registered (DRS) or certificated form, outside of DTC

Europe Economic Area / Switzerland

- ICSDs – Euroclear, Clearstream, SIX SIS
- Country CSDs – 28, by country (majority owned by stock exchanges; certain others by Euroclear and Clearstream)
 - Ireland – Euroclear Bank
 - Most CSDs have direct links (whereby a CSD is a direct participant in another), with some links indirect (assets are held via intermediary acting as sub-custodian) or relayed (assets held by a middle CSD)
- CCPs - 10 (each authorized for specific financial instruments)
 - Plus additional third-country CCPs recognized to offer services in Europe
- Euronext - operates 7 exchanges, 4 CSDs and 1 clearing-house

UK

- Euroclear UK & International (formerly Euroclear UK & Ireland) (direct links to DTC and Euroclear) – settlement services for most securities

Interaction between Securities Law/Markets and Corporate Law

What does local corporate law require or provide in respect of...

- Form and number of securities to be registered in book-entry form?
- Registration / title (and legal ownership of securities)?
- Deposit of underlying securities / assets?
- Steps to register securities in settlement system?
- Specific CSD for settlement (including when listing venue is in a different country)?
- Location for the maintenance and inspection of share registers?

Cross-border Connectivity and Settlement Models



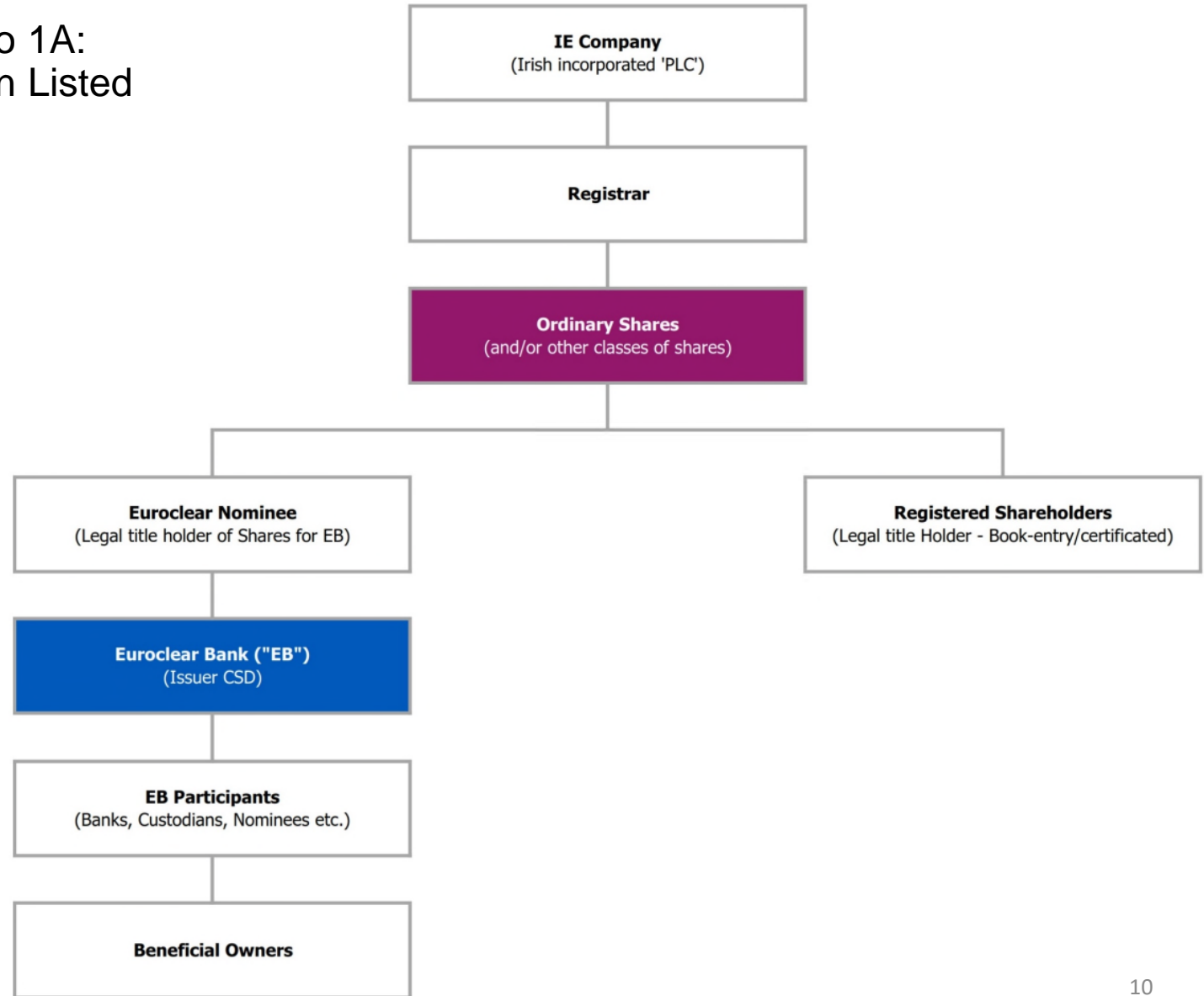
Considerations impacting the choice of structure for market connections :

- > Legal permissions/compatibility of overseas market with home jurisdiction
- > Speed and Cost to Market
- > Precedent transactions (well-known path or first of its kind)
- > Connectivity between market infrastructure providers (CSDs)
- > Availability of alternative non-direct CSD connections (DIs)
- > Eligibility for major index inclusion
- > Stamp duty/transaction tax analysis for the project and ongoing Issuer/Investor transactions
- > Shareholder (cornerstone investors/controlling holders) demands and preferences
- > Complexity of future company events (management of AGMs, dividends, buybacks, corporate actions etc.)
- > Market changes (pending regulations, market infrastructure and settlement timings)
- > Ability to create a fully fungible cross-listed security, without barriers

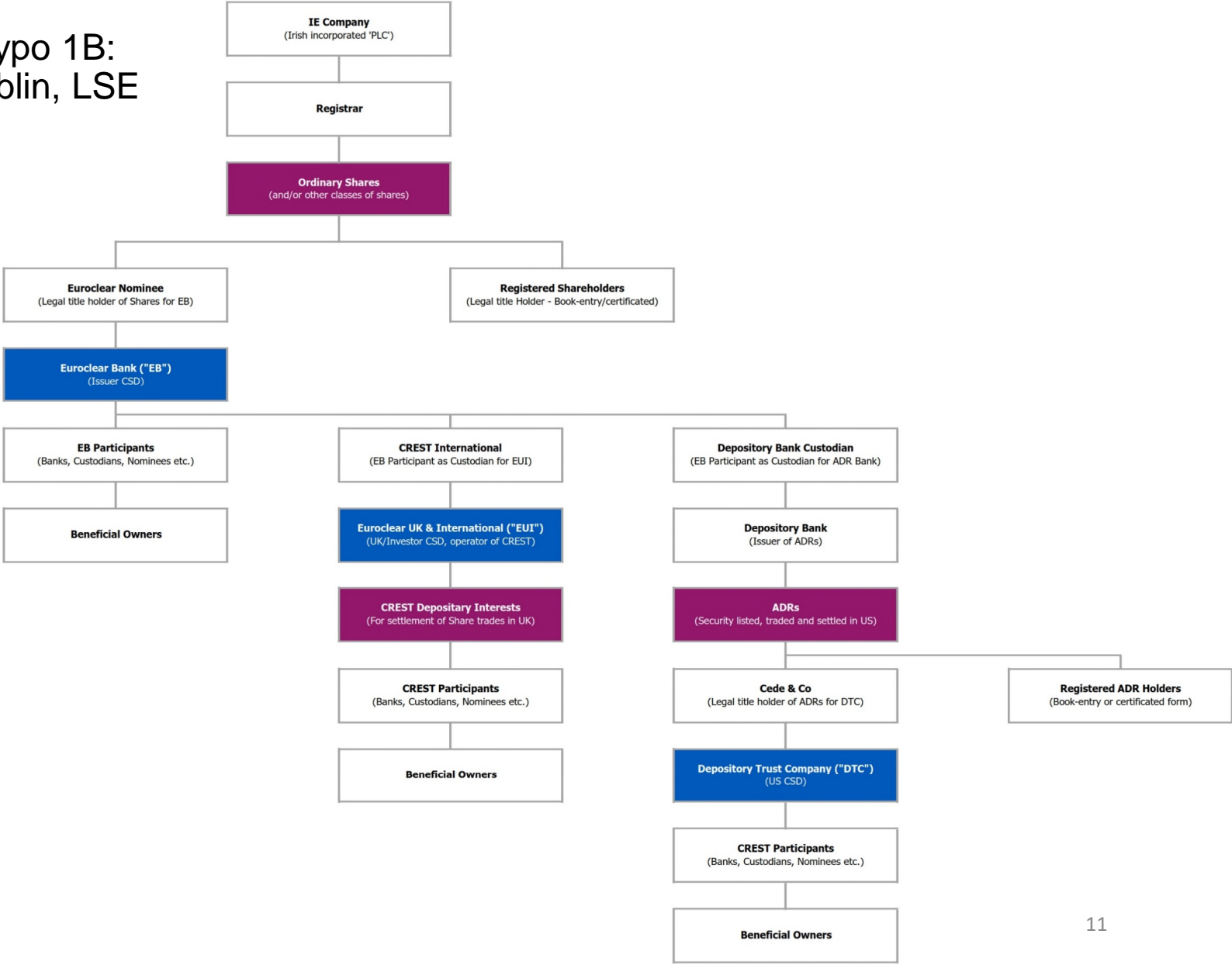
Potential for Improvements in Settlement

- Primary challenges across post-trade settlement in cross-border situations: connecting parties (and minimizing costs)
 - Connecting issuers and investors for the purpose of ownership
 - Connecting buyers to sellers
- Opportunities for driving efficiencies – improving connectivity with and between non-EU CSDs
 - E.g., DTC, CHESSE or CCASS bridges/connections with Euroclear / Clearstream

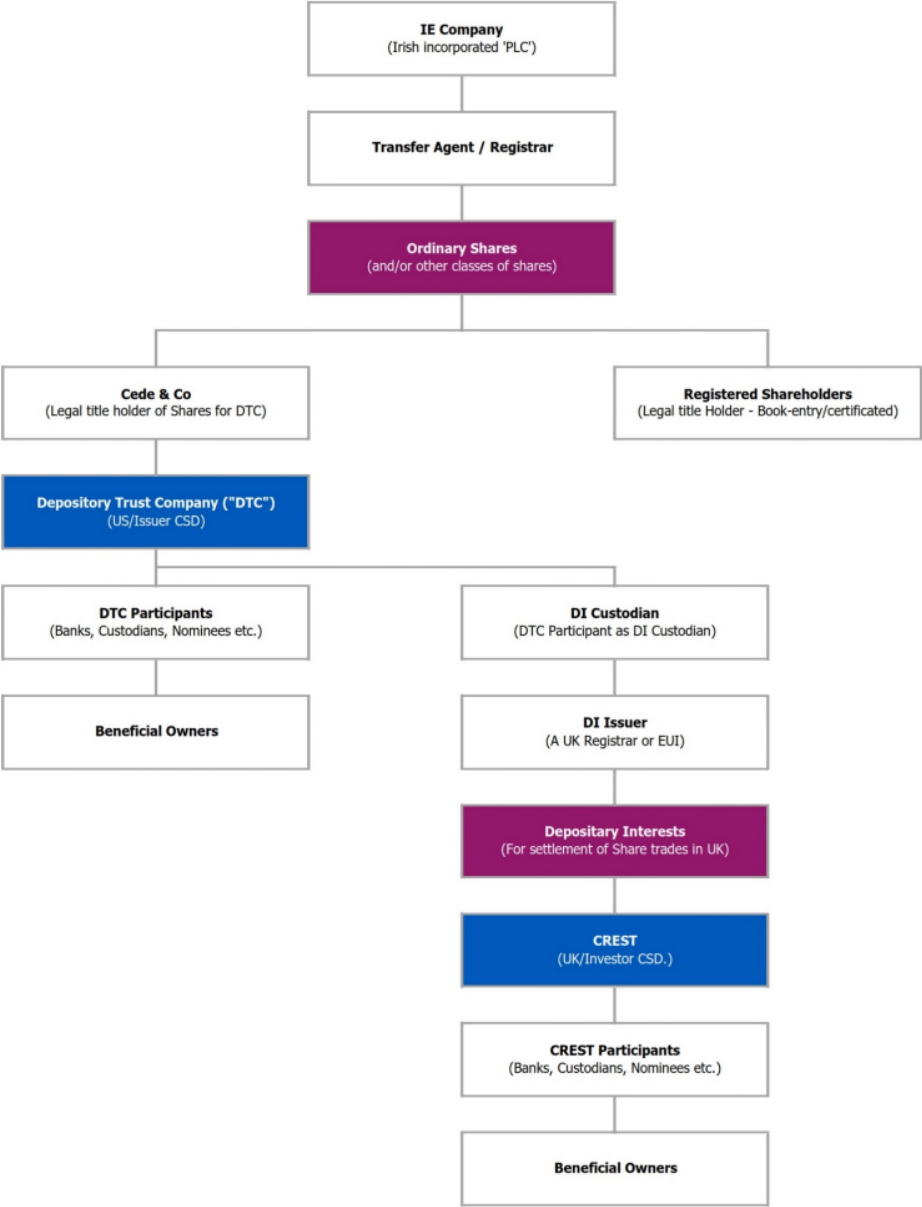
Cross-Border Settlement – Hypo 1A: Irish Company - Euronext Dublin Listed



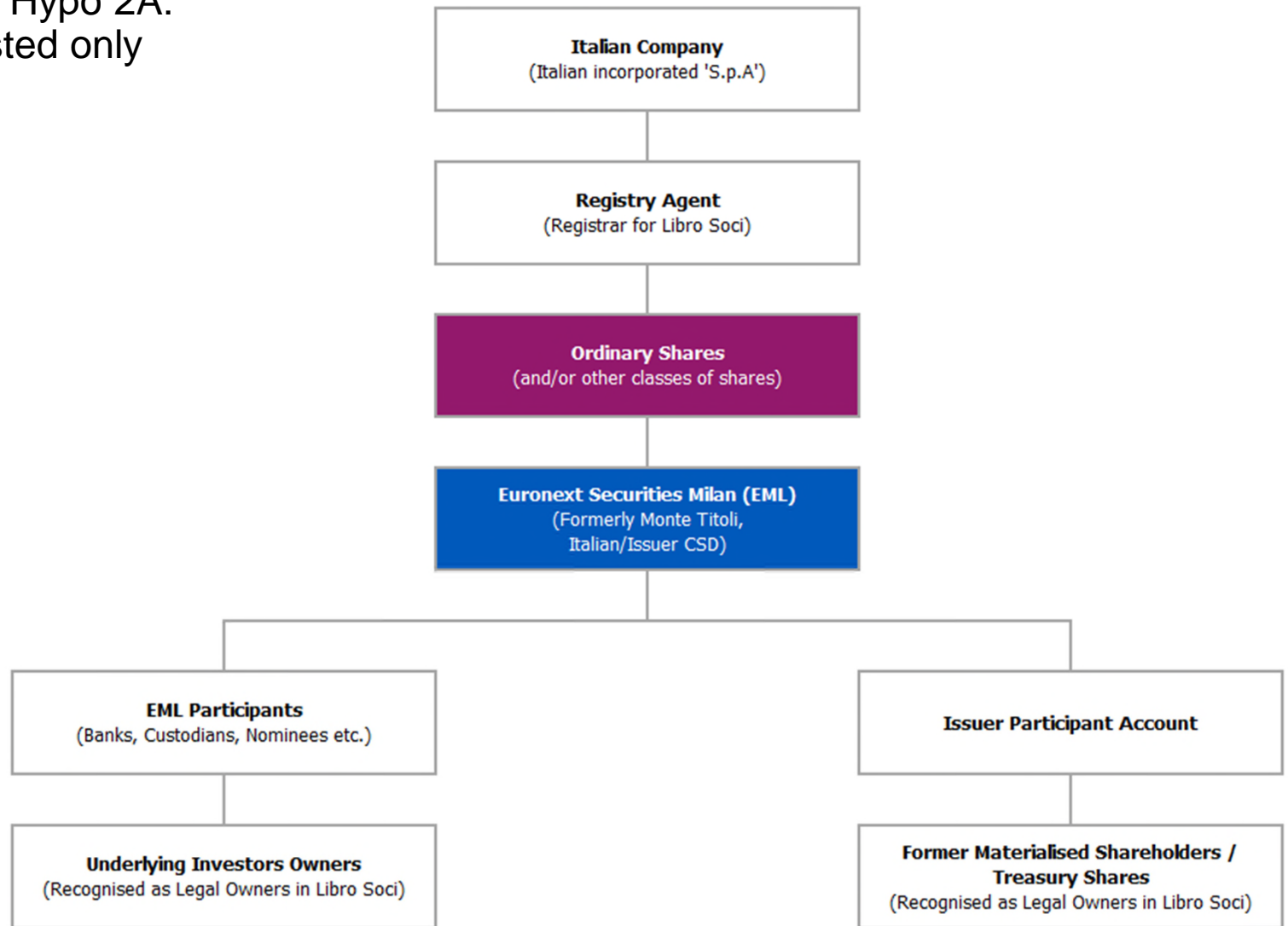
Cross-Border Settlement – Hypo 1B: Irish Company - Euronext Dublin, LSE and US (ADR) Listed



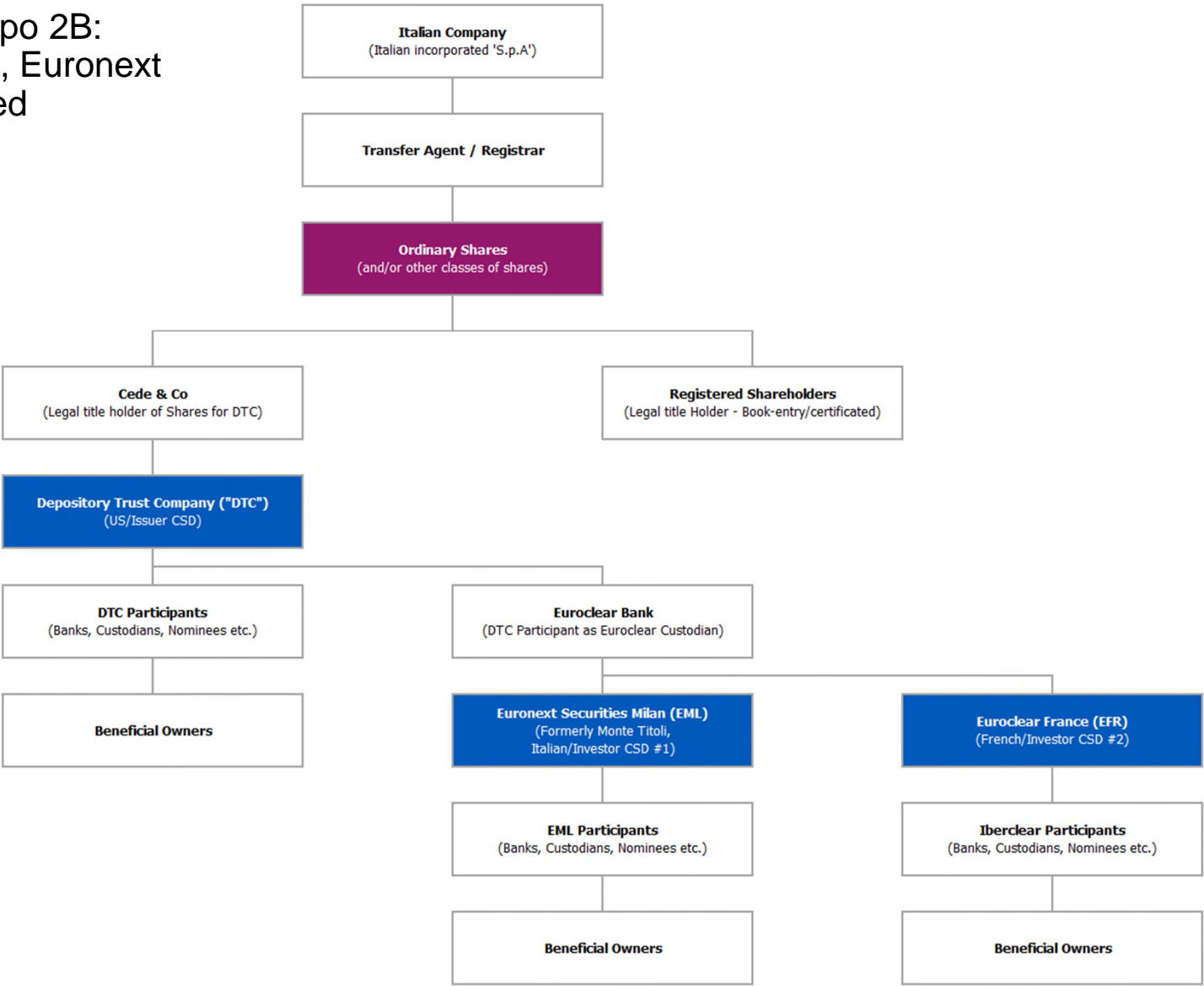
Cross-Border Settlement – Hypo 1C: Irish Company - US (Share) and LSE Listed



Cross-Border Settlement – Hypo 2A:
Italian Company– Italian listed only



Cross-Border Settlement – Hypo 2B:
 Italian Company – US (Share), Euronext
 Milan and Euronext Paris Listed



Regulatory Developments

CMU - Originally launched by the European Commission in 2015 in an effort to create a single market for capital

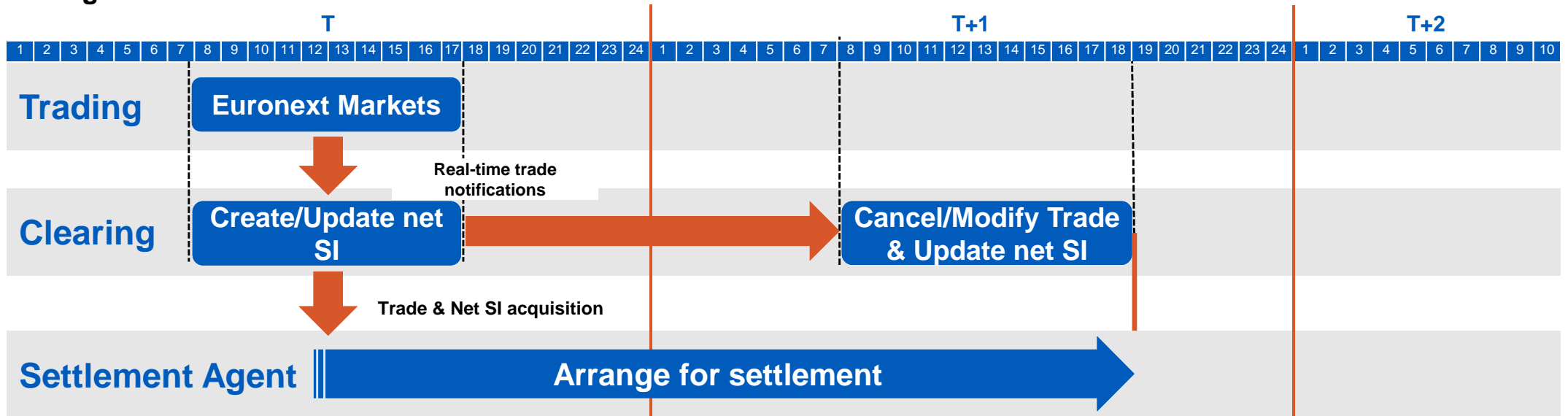
Legge Capitali - Allows SMEs to dematerialize the relevant participations (and avoid the need to convert into joint stock companies for the purposes of having their shares dematerialized and then listed) thus facilitating access for smaller companies to growth markets (in line with the CMU framework)

T+1

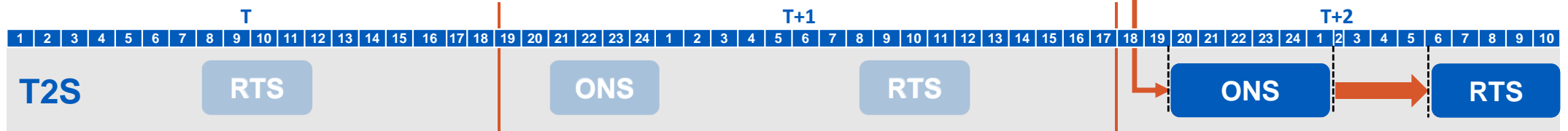
- May 28, 2024 – U.S. SEC Rule 16c6-1(a) will become effective, shortening the standard settlement cycle for most broker-dealer securities transactions in the U.S. to “T+1” (T+2 since 2017)
 - Canada to also implement T+1 (May 27, 2024 (which is a U.S. holiday))
 - Exempt transactions – where parties to a contract have expressly agreed to an alternate date for payment of funds and delivery of securities
 - Certain other jurisdictions following suit – UK (recommended by no later than end of 2027); Europe TBD
- Potential complications
 - For foreign companies with U.S. dollar proceeds – may not be able effectuate conversion into local currency
 - Coordination with jurisdictions on T+2 cycle for dividends, corporate actions and AGMs/EGMs
 - e.g., differing “ex-date” for multi-listed securities
 - Execution risk

T+2 – Current process in T2S

Trading timeline

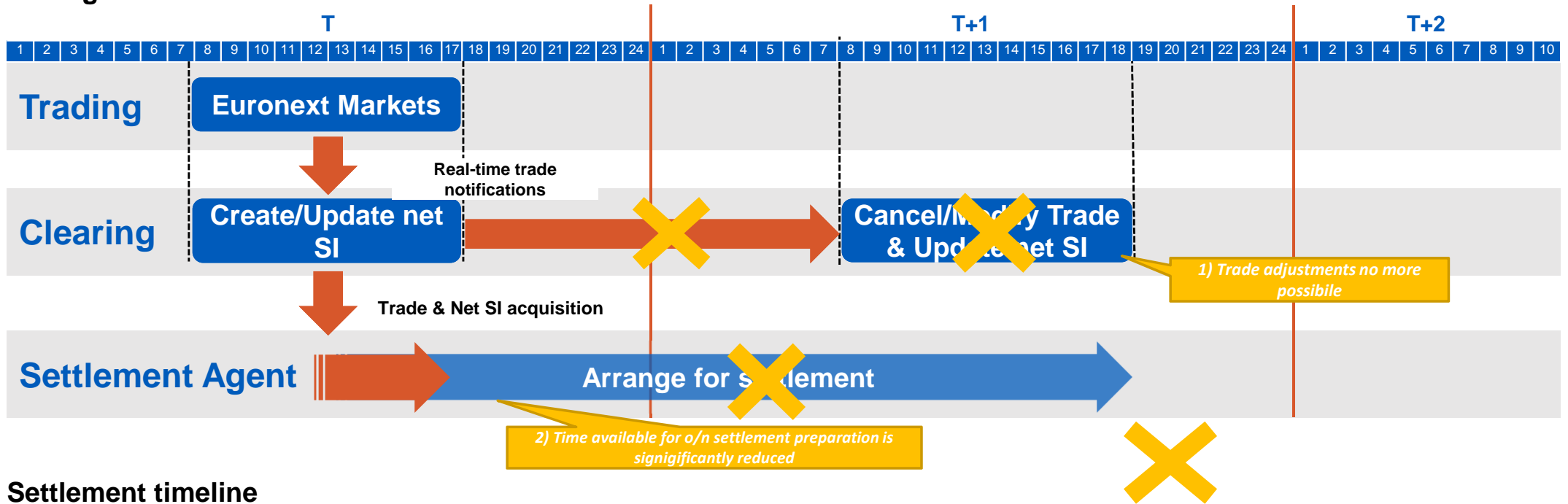


Settlement timeline

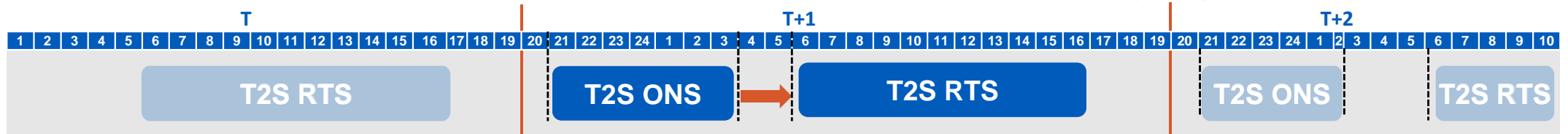


T+ 1 Potential Impacts

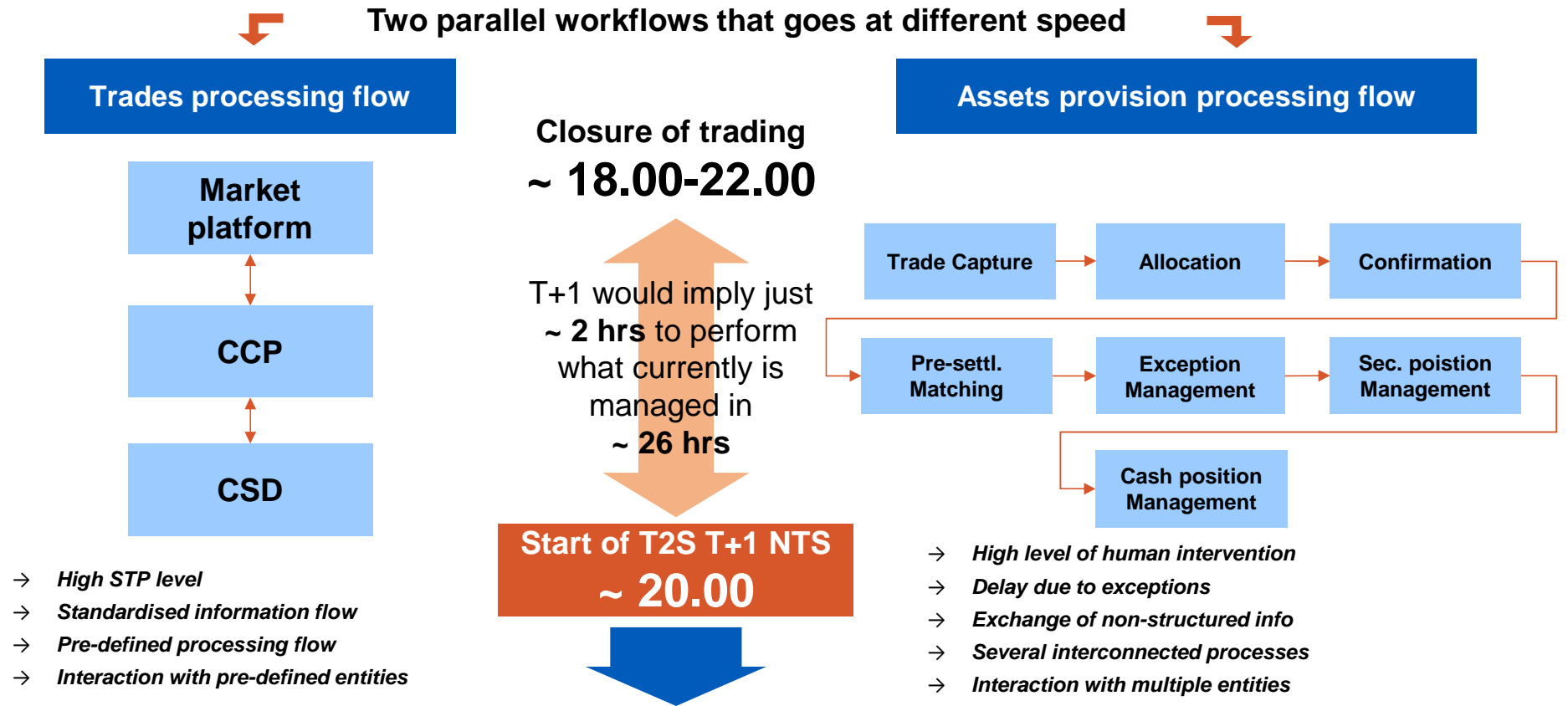
Trading timeline



Settlement timeline



How would T+1 affect the settlement workflow?



Time reduction could put at risk the efficiency of the entire settlement workflow