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Settlement of Irish Securities post Brexit

Settlement through CREST will no longer satisfy European requirements under CSDR

The settlement of Irish equity, ETF and bond securities through CREST, the system operated by Euroclear UK & Ireland, will no longer satisfy EU rules under the EU's Central Securities Depositories Regulation ("CSDR") post Brexit.

Currently, Ireland does not currently have its own Central Securities Depository ("CSD"), and, together with the UK, uses the London based CREST system. CSDR requires that trades be settled by CSDs authorised by an EU Member State Regulator as part of the Capital Markets Union plans to bring a single, pan-European rulebook to the post-trade sector.

The Irish Stock Exchange ("ISE"), industry participants and authorities in Ireland are examining three possible options for settlement requirements post Brexit:

- 1. Ireland establish its own CSD,
- 2. Irish securities are settled through another EU CSD under the passporting provisions of CSDR, or
- 3. The UK is deemed by the EU to be "equivalent" under CSDR.

Existing links between the ISE and the Frankfurt Exchange through its Xetra trading platform may facilitate further linkages on the settlement side as the Deutsche Boerse, which operates the Frankfurt exchange, also owns Clearstream.



The third option is far from straightforward, despite the UK having already adopted CSDR. Timing concerns, certainty, EU appetite for facilitating a soft UK Brexit and the UK's future commitment to continuing to keep pace with CSDR are all factors in any determination by Irish Authorities on how viable this option is with an imminent brick-wall on settlement approaching.

T2S

The first and second options offer the additional potential advantage of connecting Irish trades to the European Central Bank's T2S (Target2-Securities) platform. T2S is designed to harmonise security settlements and provide for centralised single settlement environment for the Eurozone and is one of the largest infrastructure projects launches by the Eurosystem so far.

The objectives of T2S include:

- the elimination of settlement risk, by providing for settlement in central bank money;
- the reduction of settlement costs, in particular cross border transaction costs;
- increased competition and choice between CSDs;
- optimisation of liquidity and collateral management for EU banks, as settlement is conducted by central banks;
- · decreased counterparty risk;
- Increased market integration and financial stability.

A range of European CSDs have already connected to the system, including three Euroclear CSDs (Belgium, France and the Netherlands), Clearstream Frankfurt and LuxCSD.

For further information please contact your usual Dillon Eustace financial services contact.

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