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Ms Verena Ross
Executive Director
European Securities and Markets Authority

Lodged via www.esma.europa.eu

Dear Ms Ross,

Comments on Discussion Paper on Draft Technical Standards for the Regulation on improving securities settlement in the European Union and on central securities depositories (CSDs)

Computershare appreciates the opportunity to provide ESMA with our comments on the Discussion Paper. Computershare (ASX:CPU) is a global market leader in transfer agency and share registration, employee equity plans, proxy solicitation and stakeholder communications. We also specialise in corporate trust, mortgage, bankruptcy, class action, utility and tax voucher administration, and a range of other diversified financial and governance services.

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Our comments on the Discussion Paper are offered from our perspective as share registrar acting on behalf of our issuer clients to interact with CSDs in the administration of securities positions. In reviewing the Discussion Paper, we considered the impact on all markets where we operate, however where our comments are specific to the position of a particular market we have highlighted this for your information.

Introduction (para 2)

We note that paragraph 2 discusses the introduction of "*…an obligation to represent all transferable securities in book entry form and to record these in CSDs before trading them on regulated markets*" (our emphasis added). While the point at which securities must be recorded in book entry form was the subject of some discussion through the debate on the terms of the CSD Regulation, it is our understanding that the final text for Article 3(2) retained the following wording:

> Where *a transaction in transferable securities takes place on a trading venue the relevant securities shall be recorded in book-entry form in a CSD on or before the intended settlement date, unless they have already been so recorded* (our emphasis added)

There is a critical difference in these two approaches, with the CSD-R allowing the various European markets to determine whether it is appropriate to require that securities should be recorded in the CSD prior to trading while nonetheless mandating that securities be in the CSD in time for settlement. We are concerned to see suggestion that the obligation to hold securities in book entry form in the CSD applies prior to trading as a common position, despite agreement on the final text of the CSD-R. We urge ESMA to clarify this point in the Technical Standards and any other related documentation.

Uniquely in the European Union, both the UK and the Republic of Ireland continue to have a substantial number of shareholders that hold directly on the issuer's register rather than through an intermediary. We estimate that currently there are between 10 and 15 million directly registered shareholdings in those markets. As the CSD-R will not mandate that all existing securities be held in book entry form until 2025, it would fundamentally disadvantage more than 80% of the Irish and UK shareholder base to require securities to be held in the CSD prior to trading. It would create a two tier market where certain parts of the shareholder base of a company could achieve immediate execution for a trade but others could not. This would create price disparity, issues around the principle of best execution and, in practical terms, create sub-classes of securities instead of treating all shareholders equally.

We also note that Article 3 of the CSD-R clearly allows scope for forms of book entry where securities remain held outside the CSD, a measure that we support. In markets such as the US, Australia and Canada which have already implemented systems for book entry securities to be held outside a CSD, efficient mechanisms exist to move the securities into the CSD in ample time for settlement. Similar to the UK and Ireland, these markets continue to have significant numbers of shareholders recorded outside the CSD. The text of the CSD-R allows scope for similar arrangements to be implemented in European markets and it would be prejudicial to discriminate against such investors in access to trading. We are concerned that the draft Technical Standards should not restrict this scope through secondary rule-making and therefore request ESMA to address this.

Communication procedures and standards (paras 12-13, Q.3)

Computershare supports STP measures and the use of international message standards but we are concerned over potential unintended consequences of any mandated provisions in this area. By way of an example, Euroclear UK & Ireland currently provide for both proprietary and ISO 15022 message standards, and has recently consulted members regarding their appetite for ISO 20022 implementation. The overwhelming response was that such a change would be highly costly to the industry, without adding significant benefit. Similar costs would also arise if the existing proprietary message standards were to be discontinued. While the introduction of modern international standards clearly makes sense for new infrastructures such as T2S, the business case is less convincing for older, more established systems.

Integrity of the Issue – Corporate Actions (paras 145-147, Q.33)

In considering rule-making in respect of reconciliation measures for corporate actions, ESMA should consider and allow scope for the different market approaches for responsibility for the administration of corporate actions. While in many markets the CSD has a central role in processing corporate actions, in the

UK and Ireland the calculation of entitlements is undertaken by the issuer's agent/registrar not the CSD. Responsibility for reconciliation of the corporate action lies with that agent, on behalf of its issuer client. The agent provides instructions to the CSD to update relevant securities accounts. The CSD must reconcile accounts on its systems but will not have access to the total issue for end-to-end reconciliation, as a result of the significant number of shareholders that hold their securities outside the CSD as noted earlier. The Technical Standards should accordingly only require reconciliation measures by CSDs where the CSD is calculating entitlements itself rather than acting on the instructions of the issuer or the issuer's agent.

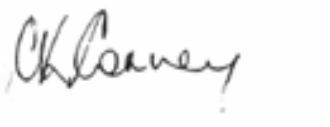
Integrity of the Issue – External Reconciliations (paras 148-150, Q.34)

We agree with the approach outlined in paragraph 148(a) and (b) to cooperation between registrars or transfer agents and the CSD to reconcile records of securities held in the CSD and the issuer's record of securities.

We note however that in markets such as Italy and Spain, the record of ownership is maintained by the CSD participants rather than 'upstream' by a registrar or the issuer. In paragraph 147, in the context of corporate actions, it is stated that Article 37(2) does not require CSDs to ensure that participants reconcile their records with the CSD, and it is therefore the responsibility of the participant to ensure this reconciliation occurs. As part of the requirements to ensure integrity of the issue, we therefore recommend that all CSDs be required to provide participants with any necessary information to facilitate 'downstream' reconciliation. We also recommend that the European Commission should consider further steps to require that reconciliation occurs at all levels of the securities holding chain, through to the beneficial owner; however we understand that is outside of the remit of the present consultation from ESMA.

We appreciate the opportunity to provide these comments to ESMA. Our perspective on the issues addressed by the Technical Standards is focused on the aspects of the Technical Standards that will impact interaction of issuers' agents/registrars with the CSD. While this is a relatively narrow aspect of the Technical Standards, it remains fundamental for ensuring the integrity of the securities issue in many European markets. Please do not hesitate to contact us if we can provide any further information or if you have any questions.

Yours sincerely,



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