



**Invesco Markets plc  
Invesco Markets II plc  
Invesco Markets III plc**

**Planned Conversion to the International Central Securities Depository  
("ICSD") Model**

**This document is for general guidance only in relation to the Invesco ETF Funds mentioned above ("Fund(s)") in preparation for their transition to the ICSD settlement model. The information contained within this document is intended for the use of institutional investors, custodian banks, and corporate actions departments. Further details regarding the Funds' conversion to the ICSD settlement model are contained in previous notices and announcements made in respect of the Funds, copies of which can be found [etf.invesco.com](http://etf.invesco.com).**

As announced on Monday 17 December 2018, the Irish High Court has approved the conversion of the above-mentioned Invesco ETF Funds to the ICSD settlement model in place of the current settlement model on the dates set out in the Timings section below.

Shares of the non-ICSD Funds are currently listed on multiple stock exchanges across Europe. Each exchange typically operates its own local central securities depositories for settlement ("CSD"). The ICSD settlement model provides centralized settlement in Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking S.A. Luxembourg ("Clearstream") (together the "International Central Securities Depositories") for transactions executed on multiple stock exchanges. It is expected that this will result in better liquidity for investors and improved settlement times.

**Benefits of the ICSD Model:**

- Enhanced secondary market tradability for investors by creating a more efficient settlement infrastructure.
- Removes the requirement for German DE ISINs when securities are traded between the UK ("IE" ISIN) and German ("DE" ISIN) markets.
- Reduction in fails and settlement delays, due to the ability to pool inventory under the ICSD structure.
- Enhancement of settlement process efficiency through longer operating hours of the International Central Securities Depositories, increasing the time in which trades can match and settle and by minimizing operational complexity.
- Reduction in inventory requirements and lower capital charges and overheads for market makers and broker dealers, which could ultimately support reduced trading costs for end investors.

- Alignment of dividend record date methodologies across Europe.
- Improved foreign exchange functionality on dividend payments.
- The development of an enhanced ETF Securities Lending market.

### **Will the ICSD settlement model replace the current way of issuing and settling ETFs generally?**

The domestic post-trade structure was the right solution when ETFs were first launched in Europe as most of the trades were within a given national market and thus, settled in the national CSDs. ETF trading in Europe has since evolved, where ETFs are now traded on multiple national exchanges and Multilateral Trading Facilities. ETFs have become international securities. The ICSD settlement model is geared for cross-border trade settlement, i.e. as an international security settling in the International Central Securities Depositories.

### **Why do we need this solution, as a number of European initiatives such as Target 2 Securities (“T 2S”) aim to solve cross- border inefficiencies in Europe?**

- T2S does not cover all European markets: the UK (which is an active ETF market) and Sweden, declined to join.
- Although SIX Swiss Exchange will join T2S, they will only make euro-denominated securities available on T2S.

### **Main Differences between the ICSD Settlement Model and the Current Settlement Model:**

- Under the current settlement model only investors with accounts in the CREST system and certain CSDs (e.g. Clearstream Banking AG, Frankfurt/Main) or their nominees are registered shareholders of the Funds. Under the ICSD settlement model, all shares in a fund will be evidenced by a global share certificate and registered in the relevant Fund’s register in the name of a single shareholder, viz., the common depositary’s nominee.
- Under the ICSD settlement model, the common depositary, common depositary’s nominee and International Central Securities Depositories of each Fund, will be subject to contractual obligations to pass beneficial interest and all associated rights in a Fund’s shares to the underlying investors of each Fund.
- Additionally, the common depositary, the current depositary’s nominee and the International Central Securities Depositories will also be contractually bound to pass any distributions received in respect of the Fund to underlying investors/their nominees.  
If a common depositary’s nominee receives any redemption proceeds or dividends from an Invesco ETF Fund or its authorised agent, it will arrange for such payments to be passed on to the relevant International Central Securities Depositories, who will in turn pay any redemption proceeds and dividends received to the relevant underlying investor/their nominee.
- For current shareholder of a Fund, who are registered in the Fund’s register of members immediately before migration to the ICSD settlement model, their ownership of shares will change from legal ownership to ownership of a beneficial entitlement through the common depositary nominee, as explained above, however, they will continue to hold a beneficial interest in the same number of shares in the same Fund(s).

- Investors who are not currently registered as shareholders of a Fund but have a beneficial entitlement to shares in that Fund will continue to hold a beneficial interest in the same number of shares in the same Fund(s) as they currently hold under the current settlement model upon the adoption of the ICSD Settlement Model.
- For the Funds, the main difference between the current settlement model and the ICSD settlement model relates to the shareholders of record registered on the relevant registers of members. Under the current settlement model, a number of nominees of Authorised Participants and other account holders in the CREST system as well as CSDs or their nominees are registered as shareholders on the relevant Fund register. Under the ICSD settlement model, all investors will be represented through the common depositary and the sole registered holder of all shares in each Fund will be the common depositary's nominee. The common depositary has been appointed by the International Central Securities Depositories and its holding will represent the holding of the investors through the International Central Securities Depositories.

#### **Will there be any other changes to the Fund(s) themselves?**

- No. The Funds will remain domiciled in the same fashion as before, there will be no differences to the management and protections within the fund for holders with these same safeguards. This is purely a settlement process change.
- Under the ICSD Settlement Model, Authorised Participants will continue to generate and instruct trades directly with the Fund (as is the case under the current settlement model).
- The dividend timelines for the Funds will continue to be declared and paid in accordance with the relevant Fund Prospectus.

#### **Timings**

As announced on Monday 17<sup>th</sup> December 2018, the Funds will be converting to the ICSD Settlement Model as follows:

Invesco Markets plc will convert at 00.01am on Monday 3<sup>rd</sup> June 2019;

Invesco Markets II plc will migrate/convert at 00.01am on Monday 25<sup>th</sup> February 2019

Invesco Markets III plc will migrate/convert at 00.01am on Monday 28<sup>th</sup> January 2019.

On the dates set out above all settlement activity will be processed via the ICSD settlement model.

## Impact of the conversion to the ICSD Settlement Model (“Scheme”) on Holdings at Each Local Central Securities Depository

The table below shows the anticipated effects of the Scheme where there are direct holdings at local CSDs.

*Note: it is possible that some CSDs hold shares indirectly through their accounts at other CSDs*

Current Local CSDs	Impact of the Scheme on the Effective Date
Euroclear UK & Ireland (“CREST”)	Domestic shares will be exchanged for international shares (with the same IE ISIN) on a 1:1 basis via CREST’s account at Euroclear Bank (“EB”). Account holders in CREST will receive CREST Depository Interests in CREST.
Clearstream Bank Frankfurt (“CBF”)	<p>Investors who held their shares in Clearstream Bank Frankfurt in their ‘Cascade’ accounts as of close of business on the preceding business day before the conversion date, will receive international shares at Clearstream Banking S.A.,Luxembourg (“CBL”) in their 6-series ‘Creation’ accounts on conversion date. These international shares will have the same IE ISIN. The IE ISINs will leave German collective safe custody (“<i>Girosammelverwahrung</i>”) as at the close of business on preceding business day before the conversion. As of the conversion date, the international shares will be settled under the Foreign Securities Depository model, also known as “<i>Wertpapierrechnung</i>”.</p> <p>The conversion requires a one-for-one DE ISIN for IE ISIN exchange with the closure of the Global Bearer Certificate Program in Germany. DE ISINs will therefore be removed as part of the conversion.</p>
Euroclear Netherlands	Domestic shares will be exchanged for international shares (with the same IE ISIN) on a 1:1 basis. Holdings in Euroclear Netherlands will be in Euroclear Netherlands’ account at EB.
SIX Securities Services (“SIS”)	Domestic shares will be exchanged for international shares (with the same IE ISINS) on a 1:1 basis. Holdings in SIS will be in SIS’ account at either EB or CBL (as SIS’s discretion).
<p>Monte Titoli*</p> <p>*trading of the shares of the sub funds on Borsa Italian Secondary Market will continue to be regulated through Monte Titoli, which adheres to the ICSD System. No changes for the final investors trading the shares on the secondary market in Italy.</p>	Domestic shares will be exchanged for international shares (with the same IE ISIN) on a 1:1 basis. Holdings in Monte Titoli will be in Monte Titoli’s account at either CBL or EB (at Monte Titoli’s discretion).

## **Frequently Asked Questions:**

**1. Will it be more expensive for a prime broker/clearer to settle in EB compared to a local CSD?**

Based on current volumes, we expect clearers and prime brokers to have similar infrastructure costs with the ICSD settlement model, which is designed to achieve similar settlement fee per transaction costs than existing CSDs.

**2. My investor client is trying to settle locally instead of settling on the Euroclear settled segment, do you foresee many clients trying to settle locally?**

There will be a requirement to educate investors on the benefits of using the ICSD. There will still be scenarios where the settlement could occur locally. The structure has been designed to allow local investors to hold their ETF assets via eligible participants of the ICSD. Most CSDs have an account in EB or CBL.

The London Stock Exchange will not allow for local settlement. All trading participants, clearing members or their settlement agents will be required to have arrangements in place whereby their settlements will occur in a Euroclear Bank settlement account.

Upon receipt of the settlement details contained within the static data form that will be required prior to live, LCH. Clearnet Ltd will instruct both sides of the settlement via Power of Attorney in the relevant Euroclear Bank settlement account. The arrangements for domestic settlement via Euroclear UK & Ireland (EUI) will remain unchanged in the London Stock Exchange's existing standard ETF segments.

**3. Under the new structure, will a German trade still need cross-border settlement between Euroclear and Clearstream?**

Please refer to above question:

It will not be a cross-border transaction per se. The trading member will have to deliver intraday from its account in Euroclear Bank to its account in CBF via the bridge Euroclear Bank Clearstream Luxembourg, which will be a standard instruction (a conversion will not be required)

**4. When are we expecting to receive dividends under the new structure?**

The dividend timeline will be the same as it currently is.

**5. If a broker only has access to a local CSD can I still trade/hold ETFs?**

The structure has been designed to allow local investors to hold their ETF assets via eligible participants of ICSD. Most of European CSDs have an account in EB or CBL. However, every CSD will have to decide if they want to support the new instruments.

### **Further Enquiries**

Please contact +44 20 8538 4900

**Invesco**  
**January 2019**