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COOPERATIVE BANKS  
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EUROPÄISCHE VEREINIGUNG DER  
GENOSSENSCHAFTSBANKEN

# HARMONISATION OF CORPORATE ACTIONS PROCESSING IN EUROPE

## CASH DIVIDENDS

(March 2005)

**Note:** the full set of recommendations is available on the FBE website: [www.fbe.be](http://www.fbe.be)



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## 1. INTRODUCTION

### 1.1. Background

The Giovannini Group, acting as advisory body to the EU Commission on EU cross-border clearing and settlement arrangements identified, in two reports published in 2001 and 2003 respectively, a number of market practice, legal and tax barriers that must be removed in order to eliminate inefficiencies in EU cross-border clearing & settlement arrangements and to achieve an integrated post-trading environment for the EU securities market.

One of the market barriers, **Barrier 3**, relates to national differences in the rules governing **corporate actions**, beneficial ownership and custody.

The second report calls for the harmonisation by the market of the variety of national rules, information requirements and deadlines for Corporate Actions.

Mandate was given to the European Credit Sector Associations (ECSAs)<sup>1</sup> and to the European CSD Association (ECSDA) to take the lead in this initiative.

On behalf of the ECSAs, and in an effort to improve processing efficiency in European domestic and cross-border corporate actions, the Fédération Bancaire Européenne (FBE) has formed the Corporate Actions Task Force (CATF), with the aim of identifying the obstacles that prevent such efficiency and making recommendations with regard to their removal. This Task Force is comprised of expert practitioners from banks, as well as a correspondent member from the other two ECSAs to ensure appropriate coordination and consultation. Accordingly, the recommendations on cash dividends presented in this document have been endorsed by the three ECSAs and their respective members.

### 1.2. Approach to Recommendations

The approach taken to define these recommendations is a systematic analysis of the Corporate Actions processing and key indicators across the EU for a defined set of event types.

This document outlines a set of recommendations relating to a first set of event types, which is a simple **cash dividend**. Cash dividends are by far the most frequent corporate event, both in number of occurrences and in terms of values processed. They therefore mark an excellent starting point for the introduction of market standards.

The recommendations deal with specific aspects of **mandatory cash dividend processing**. Whilst the actors that perform the roles played in this process differ from country to country, the information and processing requirements are largely the same. The recommendations have been validated specifically against a number of major national and cross-border markets.

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<sup>1</sup> The ECSAs are : The European Association of Cooperative Banks (EACB), the European Savings Banks Group (ESBG) and the Fédération Bancaire Européenne (FBE)



The ECSAs make a number of recommendations about the precise use of key dates that underlie the whole cash dividend process: ex date, record date and payment date.

They make a number of further recommendations with regard to specific elements of the process. These include:

- Payment Mechanisms
- Dematerialization and Interim Securities
- Notification process

Thus this document contains the first set of ECSA agreed recommendations, which will be put forward to national financial communities and governments to remove Giovannini Barrier 3. It should also be noted that these recommendations have been coordinated with other players working on corporate actions such as issuers (EALIC), infrastructures (ECSDA, FESE), as well as other market users (ESF).

### 1.3. Implementation Considerations

Recommendations are ideal market rules and practices. This ideal will not be achieved overnight and without sometimes the necessity to introduce changes at market level as well as institution level.

In terms of **implementation**, the ECSAs plan to seek Europe-wide endorsement of the recommendations at national level and identify major players who would be prepared to be early adopters and, thus, lead the market forward.

The application and actual implementation of the recommendations in each of the markets will need to be phased-in gradually.

Some of the recommendations might already be met in a market, which can therefore consider itself compliant with the recommendation.

When this is not the case, each market will need to evaluate the existing situation compared to the recommendation, identify what needs to be done to comply with the recommendation, what are the obstacles and what needs to happen to remove them, who should be involved and take the lead.

A timeline needs to be defined and agreed to achieve full compliance.

The ECSAs as well as ECSDA will take a coordination role in the adoption of the proposed recommendations at national level. To support this role effectively, the ECSAs will carry out a communication strategy to disseminate the recommendations in the market and encourage industry-wide endorsement by all players involved in corporate actions processing in domestic and/or cross-border markets.

A two-tier approach will be implemented to support this process:

- *Endorsement* the first goal will be to seek a Europe-wide endorsement of the proposed recommendations. To achieve this goal, the members of the ECSAs will seek consensus at national level to achieve an industry-wide endorsement of the proposed recommendations.



- *Implementation* to accelerate implementation by the market place, the ECSAs will bring together a number of key players with the objective of convincing them to implement the recommendations, thereby giving other players an incentive to follow suit.

A Review of progress achieved towards endorsement and implementation of the recommendations will be carried out annually and, for the first time, at the end of 2005. For this review to function effectively, the ECSAs will conduct a Survey to establish the degree of acceptance of the recommendations and identify the remaining barriers or constraints to the implementation of these recommendations. On the basis of the results of the Review, the ECSAs will revisit, enhance and add to the proposed recommendations.

When the recommendations are embraced by the industry, the ECSAs believe they will serve to deliver the efficiency improvements sought and contribute to the creation of a true EU single financial market. At the heart of these efficiency improvements is a move to Straight Through Processing (STP), with firms communicating electronically, using messages constructed to international open market standards (ISO 15022 and 20022), and universally recognised unique identifiers (ISO 6166 ISIN).

The benefits of STP are well known. These include the reduction of operational costs and risk, scalability of operations and improved customer service.

#### **1.4. Future developments**

The recommendations contained in this document are not exhaustive since based on only one event. However some of the issues highlighted (as well as the associated recommendations) are not specific to this particular event and can be extended to other event types.

This document is the first deliverable of the CATF. Other sets of recommendations will follow for other types of Corporate Actions.

The ECSAs are currently reviewing interest payments and redemptions at maturity and plan to finalize recommendations in the near future,

In the longer term, the ECSAs propose to consider other key areas and more complex events, such as shareholders meetings, stock distribution or voluntary corporate actions where a lack of harmonization is considered to present a barrier or constraint to the efficient processing of corporate action activities.