

Harmonisation of Corporate Actions Processing in Europe

Barrier 3
Giovannini Report

Agenda

- Report and update on Associations' work on:
 - Distributions (e.g. cash dividend, rights distribution)
 - Reorganisations
 - Shareholders' Rights (related to AGM)
 - Transaction Management
 - Consistency and implementation of standards

1. Distributions

- ECAs recommendations on Stock Distribution finalised, validated by members and published – Ready for gap analysis and implementation following adopted methodology. This is the 4th set of recommendations issued by the ECAs since work started on Barrier 3
- ECSDA:
 - the standards for all cash and stock mandatory distributions are now final
 - gap analysis is being extended to include new ECSDA members
 - barriers to implementation have been identified
 - proposed implementation timeline shared with ECAs and new ECSDA members
 - discussion between ECSDA and ECAs to finalize timeline be had in Q1
 - distributions with options are being considered and a report due in H2 2006.

2. Reorganisations

- ESF: Default Rule Standards: Proposals finalised
- ECSDA and ECSAs have started work on recommendations on Reorganisation events.
Recommendations expected by mid 2006

3. Shareholders' Rights (related to GMs)

- All associations have set up a joint working group on GM related issues. First exchange of views and meeting held in Feb. 2006. Chaired by EALIC
- Main areas of harmonisation and standardisation identified:
 - GM related dates and timelines
 - GM related processes
- Analysis of draft Directive on Shareholders' voting rights focusing on operational impact

4. Transaction Management

- ESF is finalising its proposals on:
 - Buyer protection rules
 - Key dates related to voluntary corporate actions

- ECSDA:
 - Market claims: standards finalised, to be published in March
 - Dependency of standards on matching standards
 - Implementation will have impacts in other areas of the market e.g. matching rules

5. Consistency and Implementation of Standards (1)

All organizations are focusing on building momentum in all markets:

- **ECSA:** implementation workshop in January
- **ECSDA:**
 - gap analysis previously published being reviewed to include all new members
 - Proposed implementation plan approved by the Board of Directors
- **ESF:** to support implementation process where feasible
- **EALIC:** analysing effects of the standards on issuers

5. Consistency and Implementation of Standards (2)

All:

- **Identified gap analysis and barriers to implementation to be compared to ensure a single repository**
- **Agreement for each market to have a nominated committee to monitor and progress implementation**
- **Local ECSA and ECSDA representatives confirmed and will liaise to achieve this goal**
- **ECSA and ECSDA will compare and agree implementation plans at European and local levels**
- **Identify implementation synergies and ensure alignment/coordination between markets**
- **Identify legal, tax and regulatory issues to be addressed by public sector authorities**

Conclusion

- Moved from standards definition phase to implementation
- Strong interdependence with legal and fiscal constraints, with the removal of other barriers, with company law and corporate governance, with market evolutions

5. Consistency and Implementation of Standards (3)

ECSA implementation workshop: 18-19 January 2006 in Brussels

- 40 participants from 16 EU countries including FESE, EALIC, ECSDA, ESF and ECB representatives, Corporate Actions specialists and policy experts

- The objectives were:
 - Create momentum around the implementation of the necessary actions to remove Barrier 3 in light of the gap analysis performed
 - Initiate the ECSA implementation plan process
 - Identify implementation synergies and ensure alignment/coordination between markets
 - Identify legal, tax and regulatory issues to be addressed by public sector authorities

5. Consistency and Implementation of Standards (4)

Gap Analysis Overview

1. Gap Analysis covered the published 3 sets of recommendations:
 - Cash Dividend
 - Interests Payment
 - Maturity Redemption
2. 18 responding countries so far are: AT, DK, DE, GR, FI, FR, IT, NL, ES, SE, UK, EE, LT, LV, MT, PL, SK, SI
3. Gap Analysis Goals:
 - Taking snapshot of the **current** situation (static view) - Does **not** include existing planned or unplanned improvements projects
 - Benchmarking it against the recommendations to establish the starting point and form the basis for an implementation dashboard (dynamic view)
 - Identify implementation obstacles
 - Country per country
 - Cross-border level

5. Consistency and Implementation of Standards (5)

Gap Analysis Overview (continued)

4. Gap Analysis Results:

- Figures ... are just ... figures
- Plain arithmetic formulas, no specific weights on recommendations
- Domino effect: dematerialisation is a key pre-condition for all types of securities and investors
- **No** intention of finger pointing or country competition/comparison
- What matters is the **implementation plan** and follow-up

5. Consistency and Implementation of Standards (6)

Gap Analysis Scoreboard (as of 31-01-2006)

Recommendations	Degree of Compliance Average all countries (18)	Minimum	Maximum
Cash Dividends	77 %	49 %	94 %
Interests Payment	81 %	50 %	98 %
Redemption at Maturity	76 %	49 %	97 %

EALIC

European Association for Listed Companies



5. Consistency and Implementation of Standards (7)

Key Outcome of Implementation Workshop

1. Prime contacts per country were confirmed
2. National Implementation Structures to be established by 31 March 2006. Those structures shall ideally be joint groups with all players along the value chain. In the majority of countries informal structures already exist, they just need to be formalised
3. ECSA to report on “legal barriers” emerged from the workshop (i.e. the transfer of beneficial ownership) at the meeting with Legal and Certainty group on 8 February 2006
4. First outline of ECSA national implementation plans to be released by 31 March 2006
5. First implementation report to be presented at June CESAME meeting
6. ECSAs to intensify awareness at European and national level
7. Follow up workshop later in 2006 once high level implementation plans are drafted

5. Consistency and Implementation of Standards (8)

Some Major Findings

- Broad dematerialisation is a pre-condition to removing Barrier 3
- No legal or fiscal show-stoppers but serious constraints e.g. tax reclaim issues, beneficial ownership and right to entitlement which need to be tackled asap
- Some of the gaps identified at national level will require changes to national law/regulations rather than action by market participants
- Need to better define the scope of the recommendations: all asset types, all customer segments, OTC transactions, funds ??? It is however recognised that the focus must be on the main market streams and the rest should follow
- Need to better pinpoint responsibilities and identify cross-dependencies. This would be done by means of coordination between the actors

5. Consistency and Implementation of Standards (9)

Some Major Findings (2)

1. Harmonisation and in particular the sequencing of dates is necessary to ensure a level playing field for all investors especially in a cross-border context. This is particularly the case for dual-listed securities.
2. Compliance results need to be viewed in perspective. The countries represented in the Euroclear group are an example where many of the identified gaps are being addressed in the Single Platform project and will be eliminated at the conclusion of this project.
3. The main gap in almost every country is the question of notification. Although communication between the CSD and intermediaries takes place in an electronic form (although not ISO 15022/ 20022) there is no standard format for notification from the Issuer to the CSD and never in electronic form.