



FEDERATION BANCAIRE DE L'UNION EUROPEENNE
BANKING FEDERATION OF THE EUROPEAN UNION
BANKENVEREINIGUNG DER EUROPÄISCHEN UNION
(aisbl)



EUROPEAN SAVINGS BANKS GROUP
GROUPEMENT EUROPEEN DES CAISSES D'EPARGNE
EUROPÄISCHE SPARKASSENVEREINIGUNG



EUROPEAN ASSOCIATION OF COOPERATIVE BANKS
GROUPEMENT EUROPEEN DES BANQUES COOPERATIVES
EUROPÄISCHE VEREINIGUNG DER GENOSSENSCHAFTSBANKEN

Classification of Events and Definitions as of 28 March 2007

There are many types of individual corporate actions. ISO 15022/20022 identifies around 100 different types, some are simple, some are much more complex. However, all these individual events can be regrouped into two broad categories of events: a) distribution and b) reorganisation based on what happens to the underlying securities of the holder.

1. *Distribution vs. Reorganisation*

A) Distributions

They are defined as “*events where an issuer of a security delivers to a holder of those securities a particular benefit or “resource” (e.g. cash, securities, rights, etc) and where the underlying holding which gave rise to the distribution is unchanged by the event*”¹.

The key element in the distribution definition is the fact that the underlying holding and/or securities remain unchanged.

The most obvious example of a distribution event is a cash dividend. In this event, the shareholder receives cash (or coupons) but his original shareholding is unaffected. Other types of distribution include for example interest payment.

These events, i.e. distributions, can be mandatory or mandatory with options but cannot be voluntary (see chapter 2 for more details on mandatory, voluntary definitions). In other words, the event will happen, the only possible choice of the holder is related to the type of benefit, he/she will get.

¹ ECSDA Definition of distribution (source : THE EUROPEAN CENTRAL SECURITIES DEPOSITORIES ASSOCIATION'S RESPONSE TO THE GIOVANNINI REPORT BARRIER 3, CORPORATE ACTIONS - PART 1 MANDATORY DISTRIBUTIONS – 30 June 2005)



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Distribution events can be further classified. Distributions can be cash distributions (dividend, interest payment) or securities distributions (other securities) or eventually distribution in kind (other type of benefits). A mandatory securities distribution for example can be defined as “*any process that results automatically (i.e. without the action of the holder), without any payment by the holder, in a mandatory distribution of new securities (of the same kind or different than the underlying securities) without reducing the quantity of underlying securities*”².

B) Reorganisations

They are defined as “*events where the issuer replaces a security with another resource. The issuer will deliver a benefit to a holder of the security affected by the corporate action. The shareholder’s holding in the original security will be removed from the account or become valueless as part of the event. For example, a security (A) is replaced by another security (B) or other resource (stock and /or cash). There are, of course, exceptions where a reorganisation leads to no change in holdings, such as a name change*”³.

The key element in the reorganisation definition is the fact that the underlying holding and/or securities is affected by the event.

Typical reorganisation events are merger, takeover bid,...

² ECSA definition of securities distribution (source : EVENTS INCLUDING SECURITIES DISTRIBUTION – April 2006)

³ ECSDA Definition of distribution (source : THE EUROPEAN CENTRAL SECURITIES DEPOSITORIES ASSOCIATION’S RESPONSE TO THE GIOVANNINI REPORT BARRIER 3, CORPORATE ACTIONS - PART 1 MANDATORY DISTRIBUTIONS – 30 June 2005)



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2. Voluntary, Mandatory and Mandatory with Options

These two broad categories of events (distribution and reorganisation) can be further refined based on whether the holder of the underlying securities has to act or not for his/her holding to be affected or choose how they will be affected or what kind of “resource” he/she will get as part of the event. All events are either voluntary events, mandatory events or mandatory events with choice.

Voluntary events: *events in which holders of a security need to act if the event is to affect their holdings. The issuing company will usually inform all holders of the event that is about to take place; sometimes this notice is provided in the original offering documentation for the security. If no action is taken by the holder then his holding will be unaffected by the event⁴.*

Mandatory events: *events that will occur without any action required by individual holders of the security. They may involve, for example, an issue of securities, a reorganisation (i.e. mandatory exchange) or certain payments⁵.*

Mandatory events with options: *those events that will occur without any action on the part of the holders of the security, but in relation to which the holders have some choice as to the type of benefit they may receive⁶.*

⁴ ECSDA definition (same source) shared by ECSA.

⁵ Idem

⁶ idem

3. Transaction Management

Finally, the corporate actions world also knows “Transaction Management”.

Transaction management is the collective set of processes available to ensure that any parties involved in a transaction are assured of receiving the correct economic benefits due to them if the transaction is affected by a corporate action⁷.

Transaction management applies both to distribution and reorganization events.

It is widely accepted that transaction management covers market claims, transformations and buyer protection.

Market Claims Market claims are processes that redistribute corporate action proceeds where needed, so that the entitled party receives the benefit. This could be necessary due to the transaction itself (e.g. a fail) or positions (e.g. due to a lent position). In all cases the process is related to distribution type corporate actions and looks at who is the actual holder of a security on a record date as well as the entitled holder⁸.

Transformations are processes related to the converting of settlement details of an open transaction as a result of a corporate action on the security. This replaces the need for settling participants to a trade to delete the original settlement transaction and re-input.

Buyer Protection are the processes by which the buyer instructs a seller to specify an election or acceptance on his behalf where settlement falls across a record date and therefore the buyer does not have holding of the underlying securities.

⁷ idem

⁸ Source :THE EUROPEAN CENTRAL SECURITIES DEPOSITORIES ASSOCIATION’S RESPONSE TO THE GIOVANNINI REPORT
BARRIER 3, CORPORATE ACTIONS - PART 2 MARKET CLAIMS - July 2006



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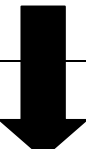
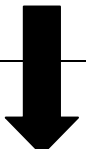


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4. General Meetings.

There has been a debate on whether General Meetings (Annual or Extraordinary) are corporate actions or whether they represent a category of events on their own. For the sake of this document, we have decided to treat them as a special category to show that harmonisation work is taking place.

5. Current Situation as of 28 March 2007

Distributions						Reorganisation			General Meetings	
Cash			Securities							
Mandatory	Mandatory with options	Voluntary	Mandatory	Mandatory with options	Voluntary	Mandatory	Mandatory with options	Voluntary	Voluntary	
ECSDA Standards for mandatory distributions		N/A	ECSDA Standards for mandatory distributions		N/A				Joint Working Group (EALIC, ECSA, ECSDA, ESF, FESE) on General Meeting related Operational Processes	
ECSA Recommendations for Cash Dividends						ECSAs Recommendations on Maturity Redemption				a) Process 1: Notice to convene the general meeting
ECSAs Recommendations on Interest Payments			ECSAs Recommendations on Events including Securities Distribution				ECSAs Recommendations on Reorganisation Events			b) Process 2: Entitlement/shareholder qualification/record date
	ECSDA Standards for Optional Distributions			ECSDA Standards for Optional Distributions			ECSDA standards on reorganisations			c) Process 3: Notification of attendance to the general meeting
							ESF Abstract of Proposals to harmonise and standardise key corporate actions processes			
ECSA/ECSDA common deliverables on mandatory distributions ¹			ECSA/ECSDA common deliverables on mandatory distributions							



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TRANSACTION MANAGEMENT

ECSDA report on automatic transformations and buyer protection

ESF Abstract of Proposals to harmonise and standardise key corporate actions processes

ECSDA Standards for market claims

Legend : Green highlights indicate that recommendations are final and have been published.
Yellow highlights indicate some work is taking place but there are no final recommendations agreed and published.

¹ Note: although work on mandatory cash distributions and mandatory securities distribution has been carried out separately initially by the two constituencies, it has been merged into a common list of deliverables