



Barrier 3

Harmonisation of Corporate Actions Processing in Europe Progress Report



Agenda

- Part 1: Market standards to harmonise distributions processing – implementation report (Alex Merriman)
- Part 2: Market standards to harmonise processing of distributions with options and reorganisations as well as transaction management (Werner Frey)
- Part 3: Market standards to harmonise operational processes of general meetings – report on standard setting process (Dorien Fransens)



Part 1: Market standards to harmonise Mandatory distributions processing – Implementation report



Implementation Plan and Preparations – Quick overview

- Drafting and endorsing the market standards by the stakeholders
- Setting up Market Implementation Groups (MIG) in the countries involved in the process
- Reviewing the recommendations and the extent of their applicability to the current market
- Adjusting the market practices to the standards, where and if applicable



Annual Implementation Review – Status Updates

- Performed by the ECSAs on the basis of the information submitted by the MIGs (and their National Coordinators) to the EBF
- Topic of the annual ECSAs Corporate Actions Workshop – review of the status updates
- Main goal – to determine critical issues and to help address them properly to the relevant authorities



Implementation Reports received

- Feedback – sent by the MIGs (where created)
Status reports submitted semi/annually by the MIGs - the work performed, the goals achieved, and the obstacles faced
- 17 European countries responded to the request for status updates (CEE countries involved in the project also contacted but most of them remained silent)
- 13 EU members states, Norway and Switzerland have sent their reports since the consultation initially started in the end of 2007 – representing the largest market share
- Detailed reports by standards and updates submitted from November 2007 to April 2008



Summary of reported issues

- Most of the comments made were on the Announcements: these standards were partially or not at all implemented, the lack of legal framework – most common obstacle
- Where observed (for direct holdings mostly) the information flow from (I)CSD participants has been hindered mainly by the fact that the information is not provided in an automated way (format)
- No significant problems associated with processing except:
 - no interim securities are currently being used in some of the markets
 - the requirement to use central bank's money for non-Euro countries



Latest developments and remaining gaps

- The order of important dates and the definition of record date – still not clear and harmonised in all the markets
- Legal issues: beneficial ownership and the legal concept of record date, and national market regulations (Laws)
- Technical gaps – electronic formats and ISO messaging still an issue to some markets



Way forward

- Review and update of the current market standards – ongoing process within the scope of the Corporate Actions Joint Working Group (CAJWG)
- Consult all constituencies and re-endorse the revised set of standards – to be completed mid-2008 (CAJWG)
- Further implementation process – adjustments still to be made in the markets



Conclusions

- Implementation process well in advance – the MIGs consist of broader market representation (with issuers and infrastructures on board)
- The Markets are facing problems from both sides – issuers and intermediaries (sequence of dates issues, format of announcements, information flow, etc.)
- Further work needs to be done in order to achieve full implementation of the market standards in all markets across Europe



Main Outcome of the ECSDA Workshop

- 16-17 April 2008: 3rd edition of the annual workshop
- National coordinators from 12 countries attended: all major European markets covered
- 3 main gaps to implementation: legal obstacles, sequence of dates, automation
- Market Standards to be updated (but no fundamental review) to reflect interdependencies with other EU initiatives: T2S etc.



Action points following the workshop

- Proposals to improve the endorsement process by all relevant constituencies (e.g. 2 rounds of consultations) by end 2008
- The 2009 Workshop will cover implementation of all Market Standards (not only mandatory distributions) once they are endorsed
- Giving a clearer view of the status of implementation / achievements standard by standard, country by country (consistent colour coding)



Part 2:

Market standards to harmonise processing of distributions with options and reorganisations as well as transaction management – report on standard setting process



Current state of standard setting process (I)

- Standard setting process largely concluded for all event types of corporate actions processing, i.e.
 - Distributions with Options
 - Mandatory Reorganisations with Options
 - Mandatory Reorganisations without Options
 - Voluntary Reorganisations
- A few contentious issues between issuers and banks remain to be resolved



Current state of standard setting process (II)

- Each set of standards per corporate action event type typically cover
 - Information flow
 - Key dates and sequence of dates
 - Processing
- Overall some 100 standards



Way forward, next steps

- Agenda for two remaining meetings of CAJWG (18/19 June in Stockholm and 10 July in Paris)
 - Standards for transaction management (market claims, transformations, default rules, buyer protection rules)
 - Finalisation of standard setting process
- Compilation of all market standards on corporate actions processing in one document
- Market consultation
- Cooperation with ISO/SWIFT and T2S project team
- Gap analyses, implementation plans by MIGs



Part 3:

**Market standards to harmonise the
operational processes of general meetings
– progress report**



To freshen up our memory

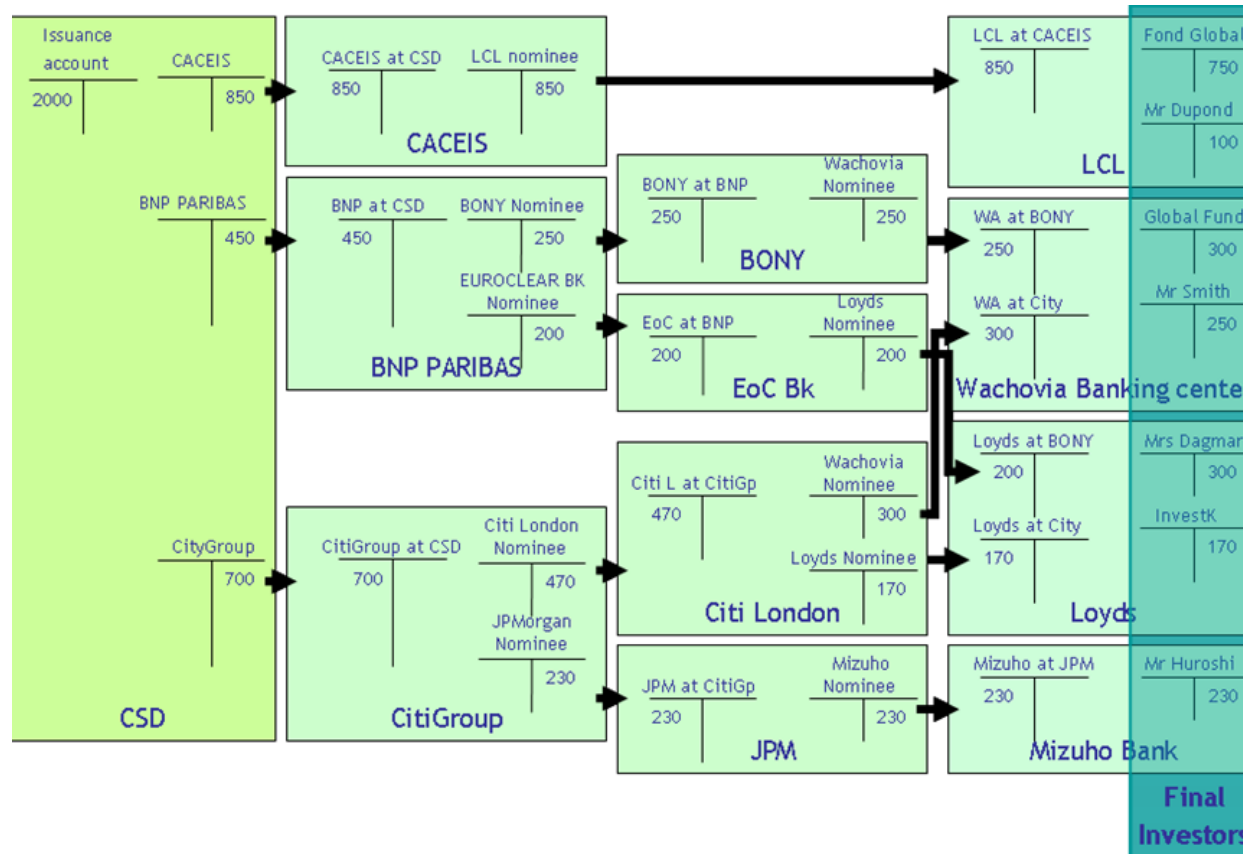
- **Objective:** Facilitate shareholder participation to GMs
- **Scope of application:** EU wide, cross-border and domestic
- **Subject matter:**
 - Market standards to harmonise the operational processing of general meetings
 - Essence: streamline communication processes
- **Who:** Cross sector working group uniting the securities industry (banks, investment firms, stock exchanges, central securities depositories) and issuers
- **Methodology:**
 - Joint working group drafts one set of standards
 - Work started end 2005; monthly meetings
 - Mandate: green field: no explicit indications in the Giovannini Reports
 - Legal context: Shareholders Rights Directive and pending Recommendation



In essence:

- Make communication happen in an effective, cost efficient and timely manner
 - Process 1: Spread information on meeting agenda and documentation: issuer down to end shareholder via securities industry
 - Process 2: Communicate entitlement (number of holdings) on record date: Issuer CSD down to the end shareholder
 - Process 3: Notification of attendance to the meeting incl voting instructions of the end shareholder back up to issuer via securities industry

Because of the cross-border and intermediated environment





Key

- Issuers and shareholders depend on the securities industry to:
 - comply with their obligations towards each other
 - exercise their rights.



Some key features of the standards

- Issuer to initiate and feed the information process
- CSD as preferred channel to dispatch info via chain of intermediaries
- Cooperation of every link in the chain crucial to remove barrier
- Communication to be continued down to the end shareholder



Current state of progress

- Standard setting: drafting standards of the 3 processes finalised on 30 April
- Consultation: complete set of standards and explanatory notes sent to the JWG constituencies and national markets and EU investor associations on 30 April
 - deadline 31 May; processing feedback during June
 - as per the intermediaries' request, extension of deadline till **30 June.**
- Processing feedback: **July**
- Adapted standards: **September**
- Endorsement, gap analysis, implementation: **4Q08- 1Q09??**



Some fundamental open questions

- **Scope of standards:** to reach or not to reach the shareholder?
 - No agreement on whether this communication should be done a) by default as covered by basic custody services or b) by default with opt-out or c) to be left out of scope altogether.
- **Cost aspect:** communication at extra cost or covered by custody services?
- **Nature of market standards:** to form an integral part of global compendium of corporate actions; quid enforcement status?