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Harmonisation of Corporate Actions Processing in Europe

1 March 2005

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Agenda

- **Introduction**
- **Objectives of corporate actions harmonisation**
- **Proposed standards for cash dividends processing**
- **Benefits of harmonisation of processes**
- **Implementation**
- **Way forward, next steps**

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Introduction

- Barrier 3: “National rules relating to corporate actions processing should be harmonised”
- Growing importance to remove this barrier as cross border ownership is increasing due to company mergers and ease to trade cross border as well as multiple listings and offerings
- Causes of the existing diversity:
 - Variety of rules, information requirements and dates / timelines
 - Legal differences, e.g. corporate law, securities law

The logo for EALIC, consisting of the letters 'EALIC' in a blue, serif font.The logo for ECSDA, featuring the letters 'E C S D A' in blue boxes above the text 'EUROPEAN CENTRAL SECURITIES DEPOSITORIES ASSOCIATION' in a smaller blue font.The logo for esf, with a blue 'e' followed by 'sf' in a grey, lowercase sans-serif font.The logo for EBF, with the letters 'E B F' in a blue, stylized, bold font.

Introduction (contd.)

- A case for cooperation among private sector organisations – issuers (EALIC), infrastructure (ECSDA, FESE) and market users (EBF/ECSAs, ESF) – applying complementary approaches:
 - ECSDA and EBF/ECSAs are looking at all elements of corporate actions over a longer period
 - ESF is looking at prioritised issues driving for early solutions where possible
 - EALIC's priorities are the communication throughout the chain and AGM related issues
- All organisations have, however, agreed on a joint strategy, a plan, a methodology and on a process to interact and cooperate.

Objectives of harmonised processes

- Harmonisation of all corporate actions processes affect both holdings and transactions including data and its provision, timing, election processing, resources, payment mechanisms and transaction management
- Reduced cost and risk resulting from
 - reduced complexity allowing for increased STP
 - less required specialisation and better use of means with infrastructure organisations and market users
 - More efficient transaction management processes such as reduced claims and compensation payments

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Objectives of harmonised processes (contd.)

- Harmonised processes will benefit both the operational side of corporate actions processing and the governance aspects embedded in them, e.g. shareholder rights (participation in shareholder meetings, information to shareholders etc.), proxy voting
- Allow for a harmonised process for issuers to gain transparency of their shareholders throughout the security's lifecycle

Proposed standards for cash dividends processing

- Harmonisation of cash dividends processing as first step: most frequent corporate action
- Standards cover four areas :
 - Data and its provision
 - Resources
 - Timing
 - Payment mechanismsand the end-to-end process from issuer to investor

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Proposed standards for cash dividends processing

- Broad consensus on key standards among EALIC, EBF/ECSAs, ECSDA, ESF and FESE
- Details of proposed standards are contained in documents agreed by the organisations involved and endorsed by relevant constituencies.

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Proposed key standards for cash dividends processing – data and its provision

- Standardised content of announcement by issuer
- Standardised format of announcement
- Standardised information distribution channels throughout the chain of affected parties
- Standardised timelines of communication throughout the chain of affected parties

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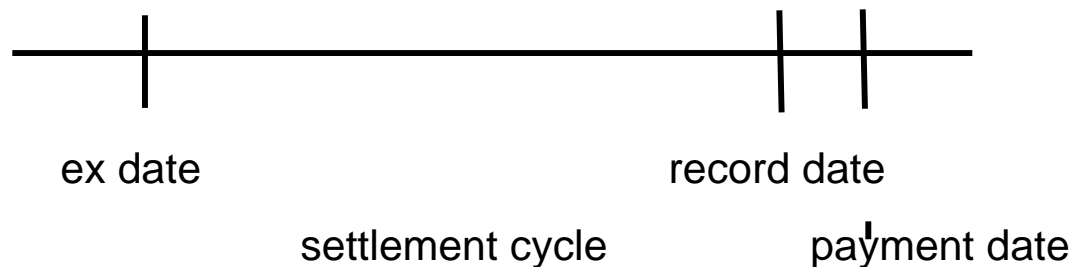


Proposed key standards for cash dividends processing - resources

- Elimination of interim security for cash distributions

Proposed key standards for cash dividends processing – timing

- Common definition of key dates
- Standardised key dates: ex date, record date, payment date
- Proposed harmonisation of ex date and record date



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Proposed key standards for cash dividends processing – payment mechanisms

- Standardised channels, electronic form and systems of payments (Central Bank Money / Commercial Bank Money) throughout the chain of affected parties
- Standardised timelines for payments throughout the chain of affected parties

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Benefits

- Proposed corporate actions harmonisation introduces a standardised process across all European markets and currencies
 - Eradicates market diversities
 - Reduces specialisation and systems complexity
 - Increases fungibility and liquidity
 - Reduces cost and risk

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Benefits (contd.)

- Benefits associated with specific standard of proposed harmonisation of record and ex date
 - Ensures that the traded position the day before ex date is as close as possible to the settled record date position and minimises thus the need for compensation payments
 - The CSDs' ability to provide an implied single settlement cycle interim solution mitigates the issue of current diverse settlement cycles
- Other benefits associated with other standards
- Benefits mainly in favour of market participants engaged in cross border transactions

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Implementation

- Each market to perform gap analysis against the standards and to come up with an implementation plan and timetable to fill the gap with the involvement of all stakeholders
- Legal, tax and regulatory barriers to be identified and removed with timely intervention of the public sector
- Monitoring by European market associations and CESAME Group



Way forward, next steps

- Actions, documents and timelines:
 - EALIC
 - Participation in Shareholders Meetings: 2005
 - Standardisation of communication between issuers, intermediaries and CSDs: 2005
 - EBF/ECSAs:
 - Report on interest payment and maturity redemption: Q2 2005
 - Analysis of stock distribution: completed Q4 2005
 - Work on proxy voting : 2005/06
 - Specific reorganisation and voluntary events: completed in 2006
 - ECSDA:
 - Report on mandatory distributions (stock and cash): Q2 2005
 - Analysis of market claims: Q3 2005

Way forward, next steps (contd.)

- ECSDA (contd.):
 - Optional distributions: end 2005
 - Reorganisations (mandatory, mandatory with options, voluntary and associated transaction management) and corporate governance: completed in 2006
- ESF:
 - Proposed set of standards to harmonise voluntary corporate actions processes (e.g. rights issues, mergers): Q1 2005
 - Select default rules for corporate actions processes: Q2 2005
 - Proposed broker protection rules: Q3 2005
 - Proposed set of standards on AGM-related processes: Q4 2005
- All organisations have, however, agreed on a joint strategy, a plan, a methodology and on a process to interact and cooperate.