

25 September 2008

# **Market Standards for Corporate Actions Processing**

Document for market consultation  
Submitted by the Corporate Actions Joint Working Group  
Consultation Deadline: 19 December 2008

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## Introduction

In the **Giovannini Reports** corporate actions processing is dealt with as **Barrier 3**, where, referring to the existing national differences, the operational problems are characterised by “the variety of rules, information requirements and deadlines for corporate actions. These differences may require specialised local knowledge or the lodgement of physical documents locally, and so inhibit the centralisation of securities settlement.”

Corporate actions processing is deemed one of the most complex areas of post trading. Standardising these processes across all European markets, and possibly beyond, aims at achieving a significant **reduction of respective costs and operational risks**.

Individual work of associations contributing to the dismantling of Giovannini Barrier 3 was replaced in summer 2007 by the set up of the **Corporate Actions Joint Working Group (CAJWG)**<sup>1</sup> that encompasses the main relevant constituencies, i.e. Issuers, market infrastructures and Intermediaries. **The CAJWG’s objective has been to develop a comprehensive set of market standards for the operational processing of all categories of Corporate Actions**<sup>2</sup> including transaction management. This document contains the standards proposed by the CAJWG, which are now subject to a market consultation and have thus not yet been endorsed by the involved associations.

Market **standards for Cash and Securities Distributions** (without Options) had been agreed previously and are currently in implementation phase. When in early 2008 market standards for cash and securities Distributions were agreed and endorsed by the relevant associations, i.e. ECSDA, the ECSAs (EBF, EACB, ESBG), ESSF and EuropeanIssuers<sup>3</sup>, the respective document had a different structure from the standards for Cash and Securities Distributions in this document. However, the CAJWG deemed it important to provide **coherent and consistent sets of standards for all categories of corporate actions**, reflecting the knowledge gain of the intensive and demanding work performed by the CAJWG over the last 12 months. Essentially the material content of both versions is the same except for the following changes made in the version contained in this document: (i) the inclusion of End

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<sup>1</sup> See Annex 1

<sup>2</sup> Except for general meetings that is the subject of the Joint Working Group on General Meetings

<sup>3</sup> EALIC at the time.

Investors in the communication chain, (ii) the standard covering the processing of Fractions being included (proposed market standard for Securities Distributions #18b) and (iii) the deletion of the request to harmonise Settlement Cycles as this will be dealt with in the context of dismantling Giovannini Barrier 6 and the replacement of it with a standard on the prevailing settlement cycle in case of conflicting cycles. To facilitate the ongoing implementation of the standards for Cash and Securities Distributions and the respective monitoring, Annex 2 provides for a conversion table for the two versions.

The CAJWG has agreed on basic principles whereby the standards should be based on work already performed and should reflect **future best market practices** (rather than solutions currently applied in majority of markets) that, once implemented, should **dismantle the operational part of Barrier 3** as concerns the categories of Corporate Actions addressed.

The proposed market standards cover the following **categories of Corporate Actions** (rather than individual event types) as well as **transaction management**:

- Distributions
  - Distributions (without Options):
    - Cash Distributions (e.g. cash dividends, interest Payments)
    - Securities Distributions (e.g. stock dividend)
  - Distributions with Options (e.g. dividend Options)
- Reorganisations
  - Mandatory Reorganisations with Options (e.g. conversion)
  - Mandatory Reorganisations without Options (e.g. stock split)
  - Voluntary Reorganisations (e.g. tender offer)
- Transaction Management
  - Market Claims (Distributions)
  - Transformations (Reorganisations)
  - Buyer Protection Rules (Elective Corporate Actions)

**The scope of application** of the proposed market standards includes

- all types of the above categories of Corporate Actions (Distributions and Reorganisations)
- all securities listed on a regulated market<sup>1</sup> and deposited with an Issuer (I)CSD in Europe
- all parties involved, i.e. Issuers, markets infrastructures (trading, clearing and settlement), Intermediaries and End Investors, except for standards for transaction management which are directed at market infrastructures and Intermediaries only.

The subject matter of the standards concerns

- the information flow throughout the chain of relevant parties
- key dates and sequences of key dates
- the operational processing of the corporate actions.

The CAJWG takes the view that in order to reap the full benefits of the proposed standards the **harmonisation of Settlement Cycles in Europe** may be required. However, the implementation of the proposed standards should not be delayed in the absence thereof.

*We invite you to send your response to this consultation paper to [wfrey@sifma.org](mailto:wfrey@sifma.org) by **Friday, 19 December 2008**.*

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<sup>1</sup> It is encouraged that the standards are also adhered to for non-listed securities.

## Glossary

*Note: Definitions given in this glossary are for the purpose of the standards on Corporate Actions only and are not meant to have any legal connotations*

<b>Actual Settlement Date</b>	Date on which the settlement effectively takes place.
<b>Bilateral Input</b>	Instructions submitted by the parties to settlement (as opposed to direct input, which is submitted by third parties like exchanges or CCPs).
<b>Buyer Protection</b>	Method to the effect that a buyer who has acquired the right to elect on a Corporate Action but does not hold the securities yet (i.e. party to a Pending Transaction), receives the outturn of his choice, by instructing the seller specifying the Option(s) chosen.
<b>Buyer Protection Deadline</b>	Last day by the end of which a Buyer Protection instruction can be given to the Issuer (I)CSD.
<b>CCP</b>	Central Counterparty
<b>Cash Distribution without Options</b>	Distribution without Options where the proceeds consist of cash.
<b>Chain of Intermediaries</b>	Sequence of Intermediaries connecting the Issuer / Issuer CSD with the End Investor and vice versa in respect of securities held by book entry in a securities account.
<b>Corporate Action</b>	Action undertaken on a security as the result of or in relation with a corporate event.
<b>Distribution</b>	Corporate Action whereby the Issuer of a security delivers particular proceeds (e.g. cash, securities, rights) to the holder of the Underlying Security without affecting the Underlying Security.

<b>Distribution with Options</b>	Distribution with a choice of proceeds for the investor to choose from.
<b>Distribution without Options</b>	Distribution without a choice of proceeds for the investor to choose from.
<b>Elective Corporate Action</b>	Corporate Action with a right attached to exercise an Option (Distributions with Options and Mandatory Reorganisations with Options) or to make an election (Voluntary Reorganisations).
<b>End Investor</b>	Person who holds the security for his own account.
<b>Ex Date</b>	Date from which trading (including exchange and OTC trading) occurs on the Underlying Security without the benefit / the right.
<b>Fractions</b>	Result of the outturn shares (Securities Distribution without Options, Mandatory Reorganisation with / without Options) that is not a whole number.
<b>Guaranteed Participation Date</b>	Last date to trade the Underlying Security with the right attached to elect in a Voluntary Reorganisation.
<b>(I)CSD</b>	(International) Central Securities Depository
<b>Intended Settlement Date</b>	Date on which a Transaction is due to settle.
<b>Interim Security</b>	Operational instrument issued for processing purposes only that is not representative of the Issuer's capital.
<b>Intermediaries</b>	Financial institutions that provide securities accounts.
<b>Investor (I)CSD</b>	(I)CSD that holds securities with another (I)CSD or with an Intermediary.
<b>Irrevocable Settlement Transaction</b>	Transaction that does not allow unilateral cancellation, nor material change of Matching instructions.
<b>ISIN</b>	International Securities Identification Number

<b>ISO</b>	International Standards Organisation
<b>Issuer</b>	The Issuer of a security listed on a regulated market in Europe including the agent mandated by the Issuer for Corporate Actions purposes.
<b>Issuer (I)CSD</b>	(I)CSD with whom the Issuer maintains its initial securities issuance through book entry.
<b>Mandatory Reorganisation</b>	Reorganisation that mandatorily affects all Underlying Securities.
<b>Mandatory Reorganisation with Options</b>	Mandatory Reorganisation with a choice of proceeds for the investor to choose from.
<b>Mandatory Reorganisation without Options</b>	Mandatory Reorganisation without a choice of proceeds for the investor to choose from.
<b>Market Claim</b>	Process to reallocate the proceeds of a Distribution so that they reach the contractually entitled party in the case the latter has not received full entitlement on Record Date.
<b>Market Deadline</b>	Date by which instructions and assets (securities, cash if applicable) must be transferred to the Issuer to validate elections.
<b>Matching</b>	Process of comparing the settlement instructions as provided by the parties in view of reaching a Transaction.
<b>Offeror</b>	Third party (not the Issuer of an Underlying Security) offering a Voluntary Reorganisation.
<b>Payment</b>	Delivery of the proceeds (securities, cash) of a Corporate Action to the entitled party.
<b>Payment Date</b>	Date on which the Payment is made.
<b>Pending Transaction</b>	Unsettled Transaction.

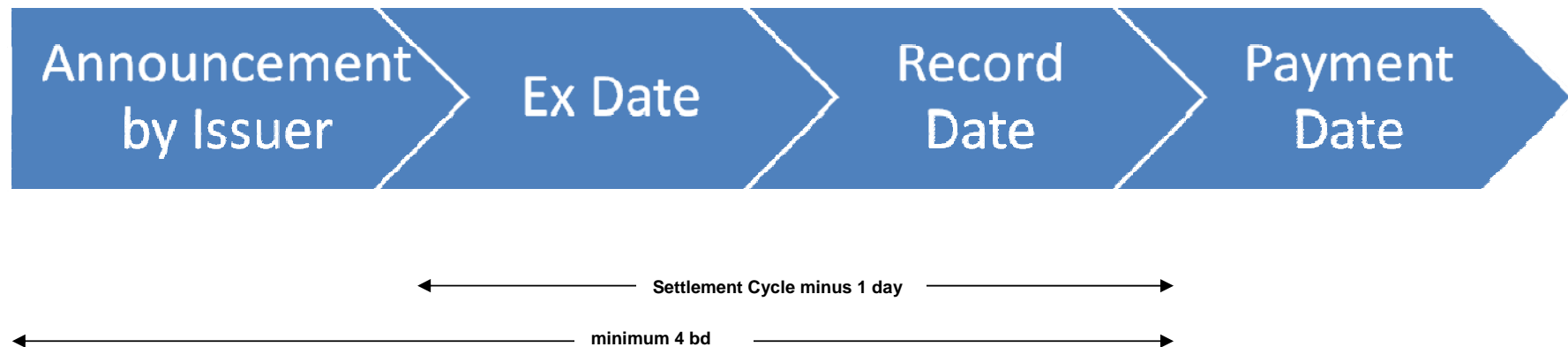
<b>Record Date</b>	Date on which positions are struck at the end of the day to determine the parties who are entitled to the Corporate Action as well as the size of their entitlement.
<b>Reorganisation</b>	Corporate Action whereby the Underlying Security is replaced with one or more proceeds (securities, cash).
<b>Securities Distribution without Options</b>	A Distribution without Options where the proceeds consist of securities.
<b>Settlement Cycle</b>	Number of business days from the trade date to the Intended Settlement Date.
<b>Top-Down Method</b>	Method whereby Fractions are compensated with cash by default, at each level, starting from the Issuer or the Issuer (I)CSD, and continuing down the chain of intermediaries until the End Investor.
<b>Transaction</b>	Result of Matching.
<b>Transformation</b>	Process by which Pending Transactions (and unmatched instructions, if permitted by the respective CSD) are cancelled or replaced by new instructions in accordance with the terms of the Reorganisation.
<b>Underlying Security</b>	Security that is the subject matter of a Corporate Action.
<b>Underlying Transaction</b>	Transaction that is the basis of a Market Claim or of a Buyer Protection.
<b>Voluntary Reorganisation</b>	Reorganisation whereby the holder of an Underlying Security may determine whether or not to let his holding participate. If the holder decides not to participate, there is no change to his holding in the Underlying Security.

# **Cash and Securities Distributions**

## **without Options**

## Cash and Securities Distributions without Options

Proposed sequence of dates



## **Market Standards for Cash Distributions without Options**

### **Information from Issuer to Issuer (I)CSD**

1. The Issuer should inform its Issuer (I)CSD of the details of a cash Distribution without Options, including the key dates, as soon as the Corporate Action has been publicly announced. It should do so also in case of a change or confirmation of the Corporate Action.
2. For floating rate instruments, the Payment Date confirmation and the announcement of the next applicable rate with reference to the applicable period for that new rate should be made in two separate announcements and not combined in the same.
3. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
4. Narrative text in the information should be provided at least in a language customary in the sphere of international finance, currently English.

### **Information from Issuer (I)CSD to its participants**

5. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer, to all its participants<sup>1</sup> who, at the time of the announcement, have a direct holding or Pending Transaction in the Underlying Security with the Issuer (I)CSD.
6. The Issuer (I)CSD should also inform any participant who obtains a new holding or is subject to a new Transaction on the Underlying Security.
7. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
8. If a Payment needs to be reversed, an announcement should be made by the Issuer (I)CSD prior to processing the reversal.

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<sup>1</sup> Including Investor (I)CSDs

### **Information flow from (I)CSD participants to End Investors**

9. (I)CSD participants and their clients further down the Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 5 and 6 above until the information reaches the End Investor.
10. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
11. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

### **Key dates**

12. Key dates are:
  - a) for Distributions relating to securities in nominal (typically bonds): Record Date and Payment Date
  - b) for Distributions relating to securities in units (typically shares): Ex Date, Record Date and Payment Date.
13. The public announcement by the Issuer under standard 1 above should be made not later than 4 business days before the Record Date.
14. For floating rate instruments, the payable rate should be confirmed as soon as possible but no later than 3 business days before the Payment Date.
15. The Ex Date should precede the Record Date by one Settlement Cycle minus one day.
16. The Payment Date should be as close as possible to the Record Date, preferably the next business day.
17. The key dates for Distributions should be the same in all markets; in case of different Settlement Cycles, the Settlement Cycle of the Issuer (I)CSD should prevail.

## Processing

18. Securities and cash movements should be by book entry.
19. Interest Payments should be processed separately from redemptions even if the respective Payment Dates coincide.
20. All Distributions and Market Claims related to Distributions, should be paid in cash and not coupons.
21. When coupons are used during a transition period, they should have their own ISIN.
22. For Payments, the following should apply:
  - a.) From Issuers to (I)CSD participants, Payments in local currency should be made in central bank money.
  - b.) For Payments made by the (I)CSD, the Payment mechanism should be the same as for other transactions by the (I)CSD.
  - c.) Payments made by Issuers and Issuer (I)CSDs should be made in the original currency as per the announcement under standard 1 above.
  - d.) In circumstances where the Payment cannot be made using central bank money (e.g. foreign currency Payment), then other payment mechanisms such as commercial bank money may be used.
  - e.) The Issuer should make Payments as early as possible after opening of the Payment system and no later than 12:00 noon.
  - f.) No blocking of holdings should be allowed prior to an interest Payment Date.

## **Market Standards for Securities Distributions without Options**

### **Information from Issuer to Issuer (I)CSD**

1. The Issuer should inform its Issuer (I)CSD of the details of a Securities Distribution without Options, including the key dates, as soon as the Corporate Action has been publicly announced. It should do so also in case of a change or confirmation of the Corporate Action or, if required, a minimum price for the compensation of Fractions .
2. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
3. Narrative text in the information should be provided at least in a language customary in the sphere of international finance, currently English.

### **Information from Issuer (I)CSD to its participants**

4. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer, to all its participants<sup>1</sup> who, at the time of the announcement, have a direct holding or Pending Transaction in the Underlying Security with the Issuer (I)CSD.
5. The Issuer (I)CSD should also inform any participant who obtains a new holding or is subject to a new Transaction in the Underlying Security.
6. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
7. If a Payment needs to be reversed, an announcement should be made by the Issuer (I)CSD prior to processing the reversal.

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<sup>1</sup> Including Investor (I)CSDs

### **Information flow from (I)CSD participants to End Investors**

8. (I)CSD participants and their clients further down the Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 4 and 5 above until the information reaches the End Investor.
9. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
10. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

### **Key dates**

11. Key dates are Ex Date, Record Date and Payment Date.
12. The public announcement by the Issuer under standard 1 above should be made not later than 4 business days before the Record Date.
13. The Ex Date should precede the Record Date by one Settlement Cycle minus one day.
14. The Payment Date should be as close as possible to the Record Date, preferably the next business day.
15. The key dates for Distributions should be the same in all markets; in case of different Settlement Cycles, the Settlement Cycle of the Issuer (I)CSD should prevail.

### **Processing**

16. Securities and, where applicable, cash movements should be by book entry.
17. All Distributions and related Market Claims should be paid in securities, not coupons.
18. When coupons are used during a transition period, they should have their own ISIN.

19. For Payments in securities, the following should apply:

a.) The Issuer should make Payments to the (I)CSD as early as possible and no later than the opening of the settlement system for settlement on the relevant Payment Date.

b) The Payments should be processed applying the Top-Down Method (rounded down to the nearest whole number) as follows:

When Fractions occur and when the Issuer compensates the fractional entitlements in cash, the Issuer (I)CSD, its participants and all the Intermediaries down the chain should on their turn, each at its respective level, also compensate any fractional entitlement in cash. If so requested by the Issuer, the minimum price for such compensations will be the average of the respective closing prices noted on the three trading dates prior to and including Record Date.

20. For Payments in cash, where applicable, the following should apply:

a.) From Issuers to (I)CSD participants, Payments in local currency should be made in central bank money.

b.) For Payments made by the (I)CSD, the Payment mechanism should be the same as for other transactions by the (I)CSD.

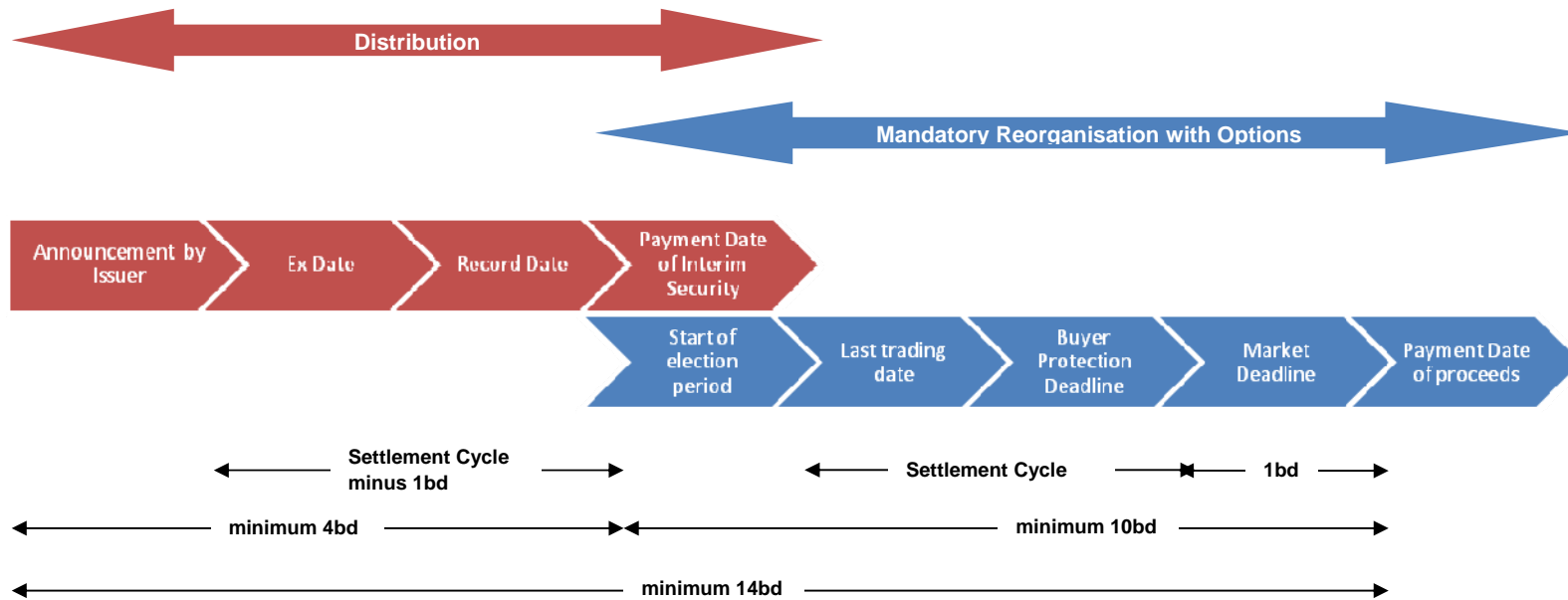
c.) In circumstances where the Payment cannot be made using central bank money (e.g. foreign currency Payment), then other Payment mechanisms such as commercial bank money may be used.

d.) The Issuer should make Payments as early as possible after opening of the Payment system and no later than 12:00 noon.

# Distributions with Options

## Distributions with Options

Proposed overall sequence of dates



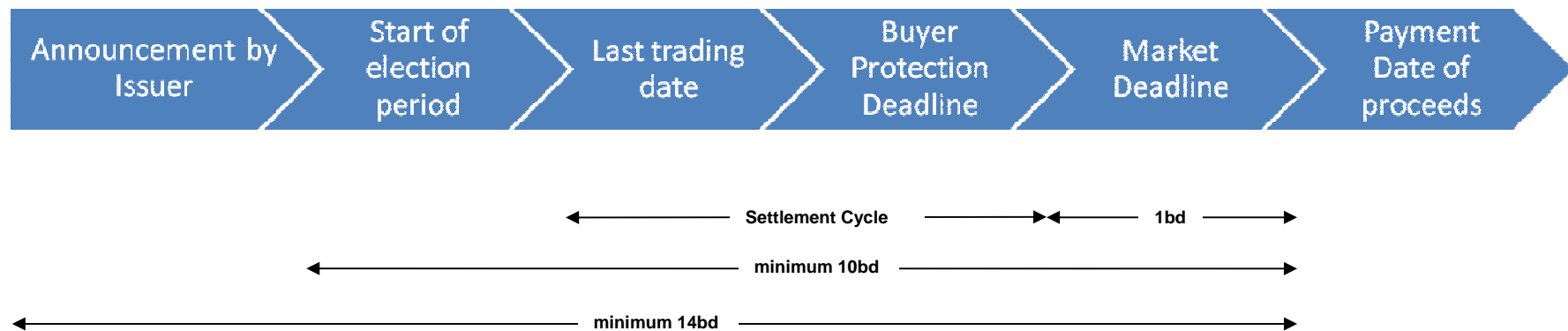
## **Proposed Market Standards for Distributions with Options**

1. All Distributions with Options should be represented by an Interim Security with an official ISIN.
2. The issuance of the Interim Security and the Options attached to it should be operationally treated as two separate Corporate Actions contained in two separate announcements, made at the same time, the first being a Distribution, the second a Mandatory Reorganisation with Options. The second Corporate Action type should be indicated in the announcement of the first Corporate Action.
3. The standards for Securities Distributions should apply to the first Corporate Action, i.e. the Distribution.
4. The standards for Mandatory Reorganisations with Options should apply to the second Corporate Action, i.e. the Mandatory Reorganisation with Options.
5. The election period determined by the Issuer should not start before the Payment Date of the Interim Security.
6. The Intended Settlement Date of any Transaction in the Interim Security should not be prior to the Payment Date of the Interim Security.

# **Mandatory Reorganisations with Options**

## Mandatory Reorganisations with Options

Proposed sequence of dates



## **Proposed Market Standards for Mandatory Reorganisations with Options**

### **Information from Issuer to Issuer (I)CSD**

1. The Issuer should inform its Issuer (I)CSD of the details, including the key dates and the default Option, of a Mandatory Reorganisation with Options as soon as the Corporate Action has been publicly announced. It should do so also in case of a change or confirmation of the Corporate Action or, if required, a minimum price for the compensation of Fractions.
2. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
3. Narrative text in the information should be provided at least in a language customary in the sphere of international finance, currently English.

### **Information from Issuer (I)CSD to its participants**

4. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer, to all its participants<sup>1</sup> who, at the time of the announcement, have a direct holding or Pending Transaction in the Underlying Security with the Issuer (I)CSD.
5. The Issuer (I)CSD should also inform any participant who obtains a new holding or is subject to a new Transaction in the Underlying Security.
6. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
7. If a Payment needs to be reversed, an announcement should be made by the Issuer (I)CSD prior to processing the reversal.

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<sup>1</sup> Including Investor (I)CSDs

### **Information flow from (I)CSD participants to End Investors**

8. (I)CSD participants and their clients further down the Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 4 and 5 above until the information reaches the End Investor.
9. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
10. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

### **Key dates**

11. The public announcement by the Issuer under standard 1 above should be made not later than 14 business days before the Market Deadline<sup>1</sup> as determined by the Issuer.
12. The start of the election period as determined by the Issuer should be not later than 10 business days before the Market Deadline<sup>1</sup>.
13. The last trading date, i.e. the last date to trade the Underlying Security<sup>2</sup>, should precede the Buyer Protection Deadline by one Settlement Cycle.
14. The Buyer Protection Deadline should be at least one business day before the Market Deadline.
15. The Payment Date of the elected Option should be as close as possible to the Market Deadline, preferably the next business day.
16. The key dates for a Mandatory Reorganisation with Options should be the same in all markets; in case of different Settlement Cycles, the Settlement Cycle of the Issuer (I)CSD should prevail.

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<sup>1</sup> In case of multiple deadlines, the earliest deadline is meant here.

<sup>2</sup> Interim Security in case the Mandatory Reorganisation with Option is the second Corporate Action in a Distribution with Options.

## Processing

17. Securities and cash movements should be by book entry.
18. A new ISIN should be allocated to each outturn security.
19. Each Option should have a unique identifier provided by the Issuer, that will be maintained by the Issuer (I)CSD and all Intermediaries.
20. Elections should be communicated from the last intermediary in the chain up to the Issuer in formatted electronic form using standards defined and used by the securities industry such as the ISO standards, irrespective from the communication channel used.
21. Underlying Securities<sup>1</sup> on which an election is made should be separated by the (I)CSD and all Intermediaries from non elected Underlying Securities<sup>1</sup>.
22. For non-elected Underlying Securities, the default Option as announced by the Issuer should apply.
23. For Payments in cash, the following should apply:
  - a.) From Issuers to (I)CSD participants, Payments in local currency should be made in central bank money.
  - b.) For Payments made by the (I)CSD, the Payment mechanism should be the same as for other transactions by the (I)CSD.
  - c.) In circumstances where the Payment cannot be made using central bank money (e.g. foreign currency Payment), then other Payment mechanisms such as commercial bank money may be used.
  - d.) The Issuer should make Payments as early as possible after opening of the Payment system and no later than 12:00 noon.

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<sup>1</sup> Interim Security in case the Mandatory Reorganisation with Option is the second Corporate Action in a Distribution with Options.

24. For Payments in securities, the following should apply:

a.) The Issuer should make Payments to the (I)CSD as early as possible and no later than the opening of the settlement system for settlement on the relevant Payment Date.

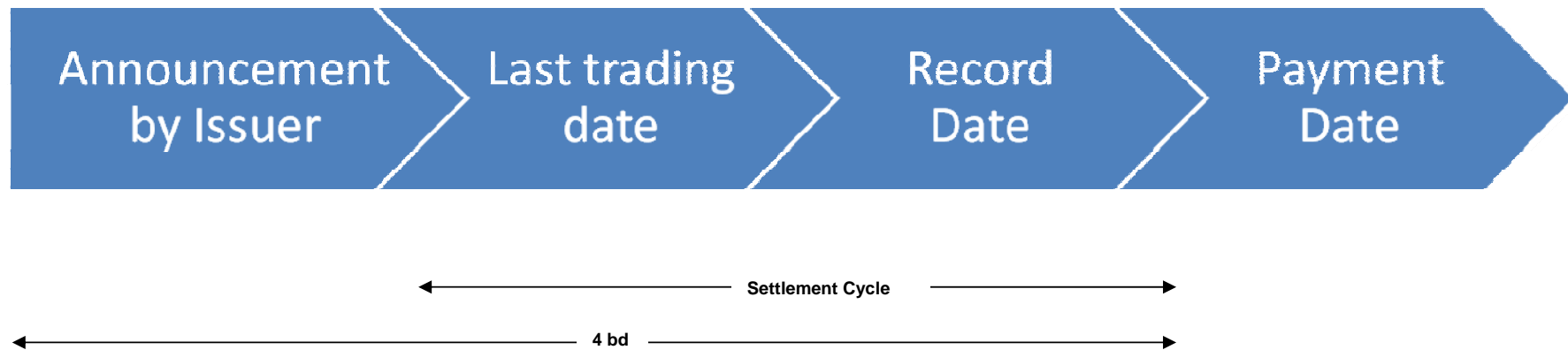
b) The Payments should be processed applying the Top-Down Method (rounded down to the nearest whole number) as follows:

When Fractions occur and when the Issuer compensates the fractional entitlements in cash, the Issuer (I)CSD, its participants and all the Intermediaries down the chain should on their turn, each at its respective level, also compensate any fractional entitlement in cash. If so requested by the Issuer, the minimum price for such compensations will be the average of the respective closing prices noted on the three trading dates prior to and including Record Date.

## **Mandatory Reorganisations without Options**

## Mandatory Reorganisations without Options

Proposed sequence of dates



## **Proposed Market Standards for Mandatory Reorganisations without Options**

### **Information from Issuer to Issuer (I)CSD**

1. The Issuer should inform its Issuer (I)CSD of the details of a Mandatory Reorganisation without Options, including the key dates, as soon as the Corporate Action has been publicly announced. It should do so also in case of a change or confirmation of the Corporate Action or, if required, a minimum price for the compensation of Fractions.
2. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
3. Narrative text in the information should be provided at least in a language customary in the sphere of international finance, currently English.

### **Information from Issuer (I)CSD to participants**

4. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer, to all its participants<sup>1</sup> who, at the time of the announcement, have a direct holding or Pending Transaction in the Underlying Security with the Issuer (I)CSD.
5. The Issuer (I)CSD should also inform any participant who obtains a new holding or is subject to a new Transaction in the Underlying Security.
6. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
7. If a Payment needs to be reversed, an announcement should be made by the (I)CSD prior to processing the reversal.

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<sup>1</sup> Including Investor (I)CSDs

### **Information flow from (I)CSD participants to End Investors**

8. (I)CSD participants and their clients further down the Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 4 and 5 above until the information reaches the End Investor.
9. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
10. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

### **Key dates**

11. The public announcement by the Issuer under standard 1 above should be made not later than 4 business days before the Record Date as determined by the Issuer.
12. The last trading date, i.e. the last date to trade the Underlying Security, should precede the Record Date by one Settlement Cycle at the minimum.
13. The Payment Date should be as close as possible to the Record Date, preferably the next business day.
14. The key dates for a Mandatory Reorganisation without Options should be the same in all markets; in case of different Settlement Cycles, the Settlement Cycle of the Issuer (I)CSD should prevail.

## Processing

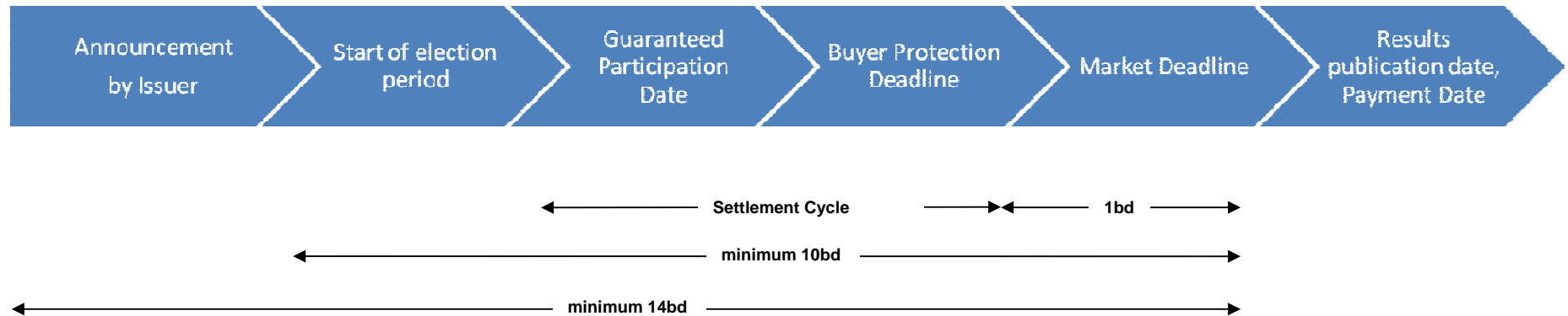
15. Securities and cash movements should be by book entry.
16. A new ISIN should be allocated to each outturn security.
17. For Payments in cash, the following should apply:
  - a.) From Issuers to (I)CSD participants, Payments in local currency should be made in central bank money.
  - b.) For Payments made by the (I)CSD, the Payment mechanism should be the same as for other transactions by the (I)CSD.
  - c.) In circumstances where the Payment cannot be made using central bank money (e.g. foreign currency Payment), then other Payment mechanisms such as commercial bank money may be used.
  - d.) The Issuer should make Payments as early as possible after opening of the Payment system and no later than 12:00 noon.
18. For Payments in securities, the following should apply:
  - a.) The Issuer should make Payments to the (I)CSD as early as possible and no later than the opening of the settlement system for settlement on the relevant Payment Date.
  - b) The Payments should be processed applying the Top-Down Method (rounded down to the nearest whole number) as follows:

When Fractions occur and when the Issuer compensates the fractional entitlements in cash, the Issuer (I)CSD, its participants and all the Intermediaries down the chain should on their turn, each at its respective level, also compensate any fractional entitlement in cash. If so requested by the Issuer, the minimum price for such compensations will be the average of the respective closing prices noted on the three trading dates prior to and including Record Date.

# **Voluntary Reorganisations**

## Voluntary Reorganisations

Proposed sequence of dates



## **Proposed Market Standards for Voluntary Reorganisations**

### **Information from Issuer/Offeror to Issuer (I)CSD**

1. The Issuer or the Offeror, as the case may be, should inform the Issuer (I)CSD of the details of a Voluntary Reorganisation, including the key dates, as soon as the Corporate Action has been publicly announced. It should do so also in case of a change or confirmation of the Corporate Action.
2. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
3. Narrative text in the information should be provided at least in a language customary in the sphere of international finance, currently English.

### **Information from Issuer (I)CSD to its participants**

4. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer or the Offeror, as the case may be, to all its participants<sup>1</sup> who, at the time of the announcement, have a direct holding or Pending Transaction in the Underlying Security with the Issuer (I)CSD.
5. The Issuer (I)CSD should also inform any participant who obtains a new holding or is subject to a new Transaction in the Underlying Security.
6. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
7. If a Payment needs to be reversed, an announcement should be made by the Issuer (I)CSD prior to processing the reversal.

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<sup>1</sup> Including Investor (I)CSDs

### **Information flow from (I)CSD participants to End Investors**

8. (I)CSD participants and their clients further down the Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 4 and 5 above until the information reaches the End Investor.
9. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective from the communication channel used.
10. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

### **Key dates**

11. The public announcement by the Issuer or the Offeror, as the case may be, under standard 1 above should be made not later than 14 business days before the Market Deadline<sup>1</sup> as determined by the Issuer or the Offeror respectively.
12. The start of the election period as determined by the Issuer or the Offeror, as the case may be, should be not later than 10 business days before the Market Deadline<sup>1</sup>.
13. The Guaranteed Participation Date, i.e. the last date to trade the Underlying Security with the right to election attached, should precede the Buyer Protection Deadline by one Settlement Cycle.
14. The Buyer Protection Deadline should be at least one business day before the Market Deadline.
15. The Payment Date should be as close as possible to the Market Deadline, preferably the next business day.
16. The key dates for a Voluntary Reorganisation should be the same in all markets; in case of different Settlement Cycles, the Settlement Cycle of the Issuer (I)CSD should prevail.
17. When the Voluntary Reorganisation is conditional, the Issuer or the Offeror, as the case may be, should publish the result of the elections. The results publication date should follow the Market Deadline as soon as possible, preferably the next business day, but before the Payment is made.

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<sup>1</sup> In case of multiple deadlines, the earliest deadline is meant here.

## Processing

18. Securities and cash movements should be by book entry.
19. A new ISIN should be allocated to each outturn security.
20. Each Option should have a unique identifier provided by the Issuer or the Offeror, as the case may be, that will be maintained by the Issuer (I)CSD and all Intermediaries.
21. Elections should be communicated from the last intermediary in the chain up to the Issuer or the Offeror, as the case may be, in formatted electronic form using standards defined and used by the securities industry such as the ISO standards, irrespective from the communication channel used.
22. Securities on which an election is made should be separated by the (I)CSD and all Intermediaries from non elected securities.
23. For Payments in cash, the following should apply:
  - a.) From Issuers or Offerors to (I)CSD participants, Payments in local currency should be made in central bank money.
  - b.) For Payments made by the (I)CSD, the Payment mechanism should be the same as for other transactions by the (I)CSD.
  - c.) In circumstances where the Payment cannot be made using central bank money (e.g. foreign currency Payment), then other Payment mechanisms such as commercial bank money may be used.
  - d.) The Issuer or the Offeror, respectively, should make Payments as early as possible after opening of the Payment system and no later than 12:00 noon.
24. For Payments in securities the Issuer or the Offeror, as the case may be, should make Payments to the Issuer (I)CSD as early as possible and no later than the opening of the settlement system for settlements on the relevant Payment Date.

# Transaction Management

Transaction Management addresses the impact of a Corporate Action on Pending Transactions handled by the clearing and settlement systems (market infrastructures and Intermediaries).

Several objectives have been targeted by the CAJWG: enable the automation of the transaction management process to ensure their timely and efficient settlement, protection of the right of both the buyer and the seller, limitation of the intervention of each party involved in a Pending Transaction, reduction of the number of Transactions to be managed considering that such process requires a reconciliation effort.

This chapter is split into 3 parts in accordance with the category of the Corporate Action:

- Market claim resulting from a Distribution
- Transformation resulting from a Reorganisation
- Buyer Protection for an Elective Corporate Action that a buyer can use if the Transaction is still unsettled whilst the Market Deadline is approaching.

The CAJWG examined the question with respect to the determination of the **fiscal status of the cash Market Claim** of a Pending Transaction impacted by a Cash Distribution and consequently the exact cash amount applicable for the Market Claim. Uncertainty remains regarding the exact moment of transfer of ownership from a fiscal point of view and different approaches co-exist in Europe. The CAJWG has identified this fiscal issue but acknowledges its limitation of competence and would recommend referring it to the FISCO group (Giovannini Barrier 11). The CAJWG believes that efforts to improve consistency and common fiscal treatment across markets and countries are essential to reap the full benefit of the EU financial market integration.

## Proposed Market Standards for Market Claims

1. A Market Claim should be created as a separate Transaction to ensure that the proceeds of a Distribution with or without Options reach the entitled party without changing the Underlying Transaction.

### Creation

2. Market Claims should be created for all Irrevocable Settlement Transactions as follows:
  - a) For securities in units (typically shares), Market Claims should be created:  
From the seller to the buyer, if trade date is before Ex Date and the Transaction is still pending at close of business of Record Date; or  
From the buyer to the seller, if trade date is on or after Ex Date and Actual Settlement Date is on or before Record Date.
  - b) For securities in nominal (typically bonds), Market Claims should be created from the seller to the buyer, if the Intended Settlement Date is on or before the Record Date but the Transaction is still pending at close of business on Record Date.
3. For all Bilateral Input in securities in units, trade date must be a Matching field.
4. Concurring Bilateral Input should allow to indicate whether the underlying trade is “ex” or “cum” and the (I)CSD or CCP should take this into account for the creation of a Market Claim, irrespective of the actual Ex Date.

### Processing

5. The (I)CSD or the CCP should create the Market Claims by end of Record Date or as soon as possible thereafter for Transactions that become eligible for a Market Claim after that date.
6. All Market Claims should be in the outturn of the Distribution to which they relate.
7. The Intended Settlement Date of the Market Claim should be on the Payment Date or, if it is created after the Payment Date, on the earliest settlement date.

8. The settlement of the Market Claim should be independent from the settlement of the Underlying Transaction to which the Market Claim relates.
9. The withholding rate applied to the Distribution by the Issuer (I)CSD should also apply to the Market Claim.

### **Reporting**

10. Market Claims should be reported as such by the (I)CSD or the CCP and any other participant down the Chain of Intermediaries, at both the time of the creation and the settlement of the Market Claim, referencing both the Distribution and the Underlying Transaction that gave rise to the Market Claim.
11. The reporting should be done in formatted electronic form using standards defined and used by the industry, such as the ISO standards, irrespective from the communication channel used.

## **Proposed Market Standards for Transformations**

1. For Mandatory Reorganisations and, when a Buyer Protection has been agreed, for Voluntary Reorganisations, the (I)CSD or the CCP should process a Transformation, cancelling at least matched instructions still pending by the end of the Record Date (“Original Transaction”) and replacing them by new matched instructions in the outturn ISIN and/or cash (“Replacement Transaction”) in accordance with the terms of the reorganisation.
2. Opt-out facilities should be allowed for Bilateral Input if both parties agree. In case of an opt-out the Original Transaction is cancelled but no new Transaction generated. Opt-out facilities should not be allowed for CCP Transactions.

### **Processing**

3. The Transformation should be carried out by the (I)CSD or the CCP between end of Record Date for Mandatory Reorganisations or end of Market Deadline for Voluntary Reorganisations and the opening of the securities settlement system for value next business day.
4. For Mandatory Reorganisations settlement in the old ISIN should be discontinued after the Record Date or the Market Deadline, as applicable, while Matching of instructions in the old ISIN with subsequent Transformation should still be allowed if only matched instructions were transformed.
5. The Replacement Transaction should not settle before the Payment Date nor before the Intended Settlement Date of the Underlying Transaction.
6. In case of multiple outturns, each Replacement Transaction should be allowed to settle irrespective of the others.

7. When the reorganisation consists of the replacement of an Underlying Security by cash (typically final redemption), the Transformation will result in exchanging cash against cash. To ease the reconciliation process, two new Transactions<sup>1</sup> should be created, one for the original cash amount and the other one for the cash benefit of the reorganisation.
8. When the outturns generate Fractions the number of outturn shares should be rounded down to the nearest whole number.
  - a.) When the Issuer compensates the fractional entitlements in cash, an additional cash Transaction should be created with a cash amount equal to the number of residual Fractions multiplied by the applicable price, and credited to the buyer<sup>2</sup>.
  - b.) When net CCP transactions are involved in a Transformation process with Fractions, the CCP could adjust (when necessarily required) the number of new shares and Fractions to maintain a balance between net buyers and net sellers. The price of each fraction should be the Issuer' price and the impacted net Transaction(s) should be reduced to their minimum.

### **Reporting**

9. Transformations should be reported as such by the (I)CSD and the CCP and any other participant down the Chain of Intermediaries, referencing both the original Transaction and the replacement Transaction.
10. The reporting should be done in formatted electronic form using standards defined and used by the industry such as the ISO standards, irrespective from the communication channel used.

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<sup>1</sup> E.g.: ISIN A is replaced by 10 euro. Before Transformation, a DVP Transaction "X has to deliver 10 ISIN A to Y against 90 euro would become "X has to deliver (10X10) euro to Y against 90 euro." 2 new transactions should be created: "X has to pay 100 euro to Y " and "Y has to pay 90 euro to X". The reference of the underlying ISIN (nihil Quantity) could facilitate the reconciliation.

<sup>2</sup> E.g.: 3 ISIN A are replaced by 1 ISIN B, and each fraction A is compensated at 5 euro. Before Transformation a DVP Transaction "X has to deliver 11 ISIN A to Y against 60 euro." The top down method rounded down to the nearest whole number allows to transform 9 A whilst 2 A remain fractional. 2 new transactions should be created: "X has to deliver 3 ISIN B to Y against 60 euro" and "X has to pay (2X5) euro to Y".

## **Proposed Market Standards for Buyer Protection rules**

### **Creation**

1. A Buyer Protection instruction should be created by the buyer, referencing the Corporate Action, the chosen Option(s), the quantity of securities and the Underlying Transaction.
2. The Buyer Protection instruction should be communicated from the buyer to the seller via the Chain of Intermediaries in formatted electronic form using standards defined and used by the securities industry such as the ISO standards, irrespective of the communication channel used.

### **Processing**

3. The Buyer Protection Deadline should follow the following dates by a Settlement Cycle:
  - a.) The last trading date in case of a Mandatory Reorganisation with Options.
  - b.) The Guaranteed Participation Date in case of a Voluntary Reorganisation.
4. The Buyer Protection Deadline should precede the Market Deadline by at least one business day.
5. Any Buyer Protection instruction by the buyer prior to the Buyer Protection Deadline and related to a Transaction for which the trade date is on or before the last trading date or the Guaranteed Participation Date respectively, should be accepted without requiring a Matching.
6. Standard 5 above should apply also in case of Buyer Protection instructions being raised against CCPs.
7. Buyer Protection Deadlines should be identical across (I)CSDs in Europe; in case of different Settlement Cycles, the Settlement Cycle of the Issuer (I)CSD should prevail.

8. In regard of any Buyer Protection instruction by the buyer prior to the Buyer Protection Deadline, settlement of the Underlying Transaction should be allowed until the Buyer Protection Deadline.
9. A Buyer Protection instruction attached to a Pending Transaction that finally settles on or before the Buyer Protection Deadline (end of settlement process) should cease to be applicable.
10. Transactions attached with a valid Buyer Protection that are still pending at the Buyer Protection Deadline should be frozen until their Transformation. This should ensure that the seller executes the buyer's Buyer Protection instruction.
11. The Transformation of the Underlying Transaction should be carried out, in accordance with the Buyer Protection instruction, at the Market Deadline/ Record Date of the Elective Corporate Action.
12. Non elected Transactions should transform into the default Option set by the Issuer (I)CSD.

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## Annex 2: Conversion table for Distribution Standards

Market Standards on Mandatory Distributions, Oct 2007	Market Standards for Cash Distributions (this document)	Market Standards for Securities Distributions (this document)
1	1	1
2	3	2
3	4	3
4		
5	13	12
6	14	
7	5	4
8	5	4
9	6	5
10	7	6
11	8	7
12	2	
13	1, 19	
14	9	8
15	5, 9	4, 8
16	10	9
17	5, 9	4, 8
18	12a)	
19	12b)	1
20	Glossary	Glossary
21	Glossary	Glossary
22	Glossary	Glossary
23	15	
24		13

Market Standards on Mandatory Distributions, Oct 2007	Market Standards for Cash Distributions (this document)	Market Standards for Securities Distributions (this document)
25	16	14
26	1	1
27	1	1
28	17	14
29		
30	Introduction, 17	Introduction, 15
31		
32	20	17
33	21	18
34	20	17
35	22a)	20a)
36	22b)	20b)
37	22d)	20c)
38	22e)	20d)
39		19a)
40	22f)	
41		