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Broad Stakeholder Group (BSG)

**Dismantling Giovannini Barrier 3:
The Market Standards for
Corporate Actions Processing
&
General Meetings**

3rd Implementation progress report

June 2011

Executive Summary

- ✓ **More markets have engaged in the process. Supporting measures** are being developed to ensure a broader take-up of the Market Standards **in Central and Eastern European countries**, including the appointment of “coaches”.
- ✓ **Representation of issuers, CCPs and exchanges has increased** in the Market Implementation Groups which are responsible for the actual implementation.
- ✓ The Broad Stakeholder Group has started expanding to **investor representation** with Euroshareholders having an observer status.
- ✓ Attendance to the May 2011 workshops was high, reflecting a **strong commitment by the markets** towards a comprehensive implementation of the Market Standards.
- ✓ **Overall good progress has been made** in the field of Corporate Actions since the last workshop of September 2010 and in most cases action plans and timelines have been defined to resolve open issues.
- ✓ **Information, education and explanation** about the Market Standards towards targeted stakeholders (e.g. issuers) must be intensified.
- ✓ A **comprehensive gap analysis** on the Market Standards for General Meetings has successfully been launched.
- ✓ The **next E-MIG workshops** will take place **in November 2011** with a focus on General Meetings Standards.

1. Introduction

This report has been prepared by the Broad Stakeholder Group (BSG), the all-inclusive industry body which has been established in order to inform the European Commission’s services on the state of implementation of the endorsed Market Standards for Corporate Actions Processing and for General Meetings. The Group includes all relevant parties in the value chain and is made up of representatives of the European key stakeholder associations and their respective members¹. The report, which follows the European Market Implementation Group (E-MIG) workshops of 3-5 May 2011 in Munich, is part of the commitment made by the BSG to steer and coordinate private sector actions to dismantle the third barrier identified by the Giovannini Group.

This report is split into five sections including the present introduction and conclusion. The second section provides an update on the market coverage of the Standards and the organisation of the MIGs. The third and fourth sections present the conclusions drawn up from the E-MIG workshops of May 2011 on Corporate Actions (implementation progress) and General Meetings (gap analysis) respectively. This report does not contain the individual country reports that were presented and discussed at the workshops (these were sent to the European Commission prior to the workshops and remain at disposal at the BSG Secretariat).

¹ The European Banking Federation (EBF), the European Association of Cooperative Banks (EACB), the European Savings Banks Group (ESBG), the Association for Financial Markets in Europe (AFME), the European Central Securities Depositories Association (ECSDA), the European Issuers, the Federation of European Stock Exchanges (FESE), the European Association of Clearing Houses (EACH), Euroshareholders (observer status).

2. Market coverage and assessment of the representativeness of the national MIGs

Among its remits, the BSG must notably promote the Market Standards and ensure full implementation in all Member States of the European Economic Area (EEA) and Switzerland, and also assess that the national MIGs include representatives of all relevant parties in the value chain (issuers, market infrastructures for trading, clearing and settlement, intermediaries and possibly investors). In this regard, the BSG Secretariat (EBF/ECSAs) liaises with the national MIGs to monitor their activities and keep updated a consolidated list of institutions that are part of these Groups.

Chart 1 shows that **the situation has improved in terms of market coverage** compared to the last report of November 2010. The first column is composed of countries that are implementing the Market Standards for Corporate Actions and have engaged in a gap analysis regarding the Market Standards for General Meetings (to the exception of Lithuania, Luxembourg and Portugal who should deliver in summer 2011). This makes 21 markets out of 31, i.e. **more than 90% of the market** in terms of equities traded on exchanges. In these markets, we observe that the MIGs are active, structured and organised, and that most parties in the value chain are represented.

The second column comprises countries where preliminary content discussions between relevant stakeholders (mostly the intermediaries and the CSD) have taken place, with the objective to create a MIG (Cyprus is currently working on a gap analysis for the Corporate Actions Standards). The third column lists the markets in which there is currently no MIG though we have been able to identify a coordinator (to the exception of the Czech Republic, Iceland and Romania).

Chart 1: Level of activity of MIGs per country:

Active MIGs	Work in progress	Absent MIGs
<ul style="list-style-type: none"> •Austria •Belgium •Denmark •Estonia •Finland •France •Germany •Greece •Italy •Latvia •Lithuania •Luxembourg •Netherlands •Norway •Poland •Portugal •Spain •Sweden •Switzerland (incl. Liechtenstein) •United Kingdom 	<ul style="list-style-type: none"> • Bulgaria • Cyprus • Ireland 	<ul style="list-style-type: none"> •Czech Republic •Hungary •Iceland •Malta •Romania •Slovenia •Slovakia

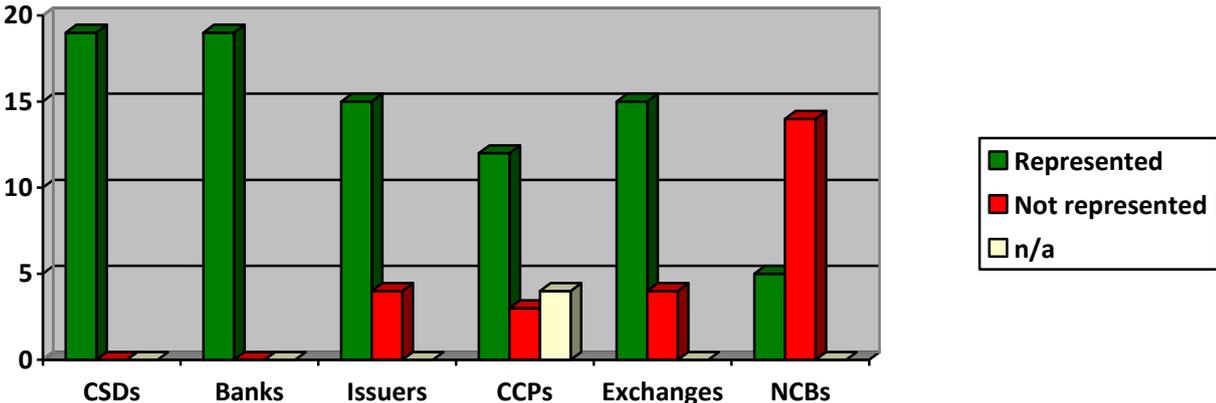
The BSG is currently working on **supporting measures** to ensure a broader take-up of the Market Standards. The first action is to allocate “coaches” or relations managers, on the basis of the

experience made by the T2S Corporate Actions Sub-Group (CASG), **to kick start the implementation process in the Central and Eastern European (CEE) countries** that are lagging behind, starting with the Corporate Actions Standards. After that, a regional event would be organised to promote and explain the Standards to those countries, with the support of the coaches and the respective European trade associations.

Chart 2 gives an overview of the composition and representativeness in the active MIGs, by category of key stakeholders. These stakeholders are: the central securities depositories (CSDs), the intermediaries (banks), the issuers, the clearing houses (CCPs), the stock exchanges, the national central banks (NCBs). In some markets, other stakeholders are part of the MIG (ministries of Finance, regulators, investors, service providers, data vendors, etc.). As they are relatively small players, they are not considered in the below chart (though it would be interesting to get information on investors' representation at local level).

The traffic light helps to determine whether a specific stakeholder is represented (green) or missing (red). The 'not applicable (n/a)' for the CCPs relates to the fact that 4 countries (Greece, Poland, Spain & Estonia) do not have a CCP for cash equities. The vertical scale indicates the number of active markets/MIGs where the stakeholder concerned is represented (or not). For instance, the issuers are represented in 15 MIGs and missing in 4 (information is missing for one country).

Chart 2: Representativeness of stakeholders (per category) in the active MIGs:²



This mapping exercise shows that CSDs and intermediaries are represented in every active MIG. Taking into consideration that more markets are being covered, we observe that **the representation of issuers, CCPs and exchanges has increased** compared to the first report of June last year. This is also a consequence of the efforts made by the MIGs to include all relevant parties to the process. The NCBs are still under-represented. The composition also heavily depends on the organisation of industry representation at domestic level (there is no issuers' association in some countries for instance) or market reality (as said before, not every market has a CCP located in its jurisdiction for domestic clearing for instance).

3. Corporate Actions - Implementation progress

The BSG notes that attendance to both the Corporate Actions and the General Meetings workshops was high, reflecting a strong commitment by the markets towards a comprehensive and timely implementation of the Market Standards for Corporate Actions and to deliver a comprehensive gap analysis for the Market Standards for General Meetings.

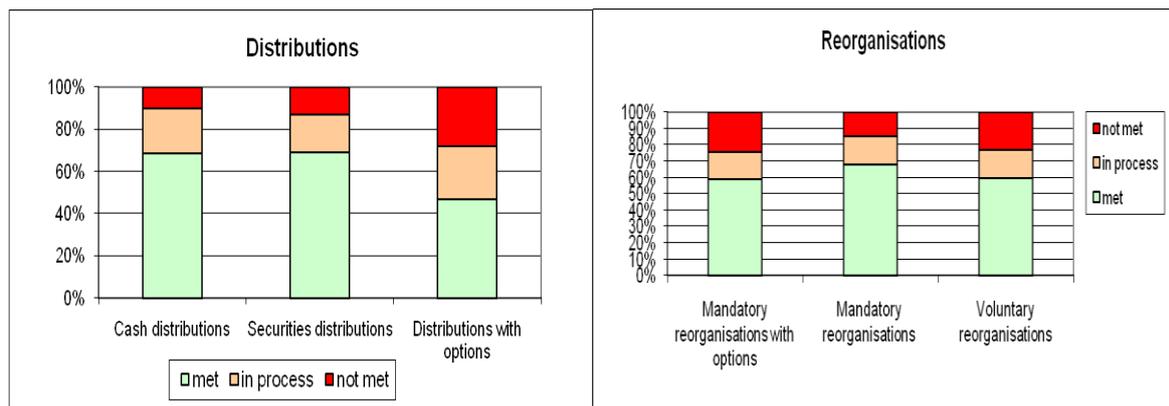
² The numbers of active MIGs considered here is 20, Liechtenstein being covered by the Swiss MIG. Information on the composition of the MIG is missing for Latvia.

The **objectives** of the one and a half day workshop on the Market Standards for Corporate Actions were to:

- Assess the Europe-wide state of implementation of the endorsed Standards emphasising on the priorities defined at the workshop of September 2010:
 - End-to-end communication;
 - Key dates and their sequences;
 - Internationally held and traded securities;
- Address major issues of and obstacles to successful implementation and discuss effective solutions;
- Determine third party support, where required;
- Provide a forum for exchange of experience;
- Validate agreed timeline.

Overall good progress has been made since the last workshop of September 2010 and in most cases action plans and timelines have been defined to resolve open issues. The below chart shows the current implementation status on the basis of the progress reports received by the time of the workshop from 18 markets:

Chart 3: Implementation status for the Corporate Actions Standards:



The **conclusions** of the workshop are as follows:

- The implementation process has overall regained momentum and it remains crucial to keep this momentum and to reinforce it where required;
- The announcement of a corporate action event by the issuers/issuers' agents in a manner that is compliant with the Market Standards is key. In this respect, the respective information, education and explanation must be intensified;
- Buyer Protection Standards 1 to 4 and related key dates have to be implemented also in markets that choose not to automate the process. The CAJWG has been requested to develop more detailed processing rules;
- The national MIGs should relentlessly focus on resolving the key issues;
- The final timeline for a comprehensive implementation of the Standards in 2013 has been confirmed;
- The next workshop will focus on open issues and processing Standards.

4. General Meetings – Gap analysis

The **objective** of the gap analysis is to assess the Market Standards for General Meetings against the local market practices and the legal and regulatory requirements in order to identify the possible obstacles before implementation. The gap analysis includes a fact finding exercise on Record Date and “other requirements” to vote and participate at general meetings.

The purpose of the workshop was to understand where the different markets stand in relation to the Market Standards, and what barriers may exist to prevent their implementation across Europe. It was agreed that the aim should be to ensure that foreign shareholders are able to vote their shares along the investment chain, in the same way that domestic shareholders are currently able to. It would not be the responsibility of the national groups to find solutions to all the obstacles, but rather just to identify them at this stage.

The workshop has also highlighted the difficulties in assessing the **cross-border dimension** of the problem and it was agreed that the gap analysis should be done for the local general meetings, covering both domestic and non-domestic investors, and for foreign general meetings, covering only domestic investors.

Specific issues raised at the workshop should be discussed in the JWGGM and the BSG as appropriate. Once the outstanding questions have been clarified, they will be communicated to the market participants through the national MIGs in order for them to either enrich the gap analysis, or adjust their assessment or complete the questionnaire for the countries which have not done so yet.

The next workshop should then discuss a more **comprehensive gap analysis** and try to identify the gaps (industry, legal, administrative, tax, etc.) and what needs to be done to remove them. In that respect, it will be important to differentiate between gaps that are cross-markets from gaps that are country-specific. Ultimately the gap analysis should serve as a starting point to establish detailed Implementation Plans.

5. Conclusions

1 - The BSG is maturing, and is now responsible for the whole set of Standards to dismantle Giovannini Barrier 3. The BSG has started expanding to investor representation (Euroshareholder has an observer status). It has also succeeded in improving cooperation and communication between issuers, market infrastructures and banks and will continue seeking fostering a continuing dialogue between these players to discuss issues of common interest related to the implementation of Market Standards and to ensure there is a shared understanding of the objectives and priorities.

2 - The next E-MIG workshops will take place in November 2011 (date and venue to be determined) with a focus on General Meetings Standards.

3 - The proposed division of labour with the T2S CASG regarding the monitoring process provides for the CASG monitoring the implementation of the CASG rules as well as the Market Standards for Transaction Management (to the exception of the non-T2S markets who will report directly to the E-MIG). To avoid duplication of work, the chairs of CASG and the E-MIG on Corporate Actions will continue their coordinating role. The next progress reports for the CASG rules will be available in September 2011, and could therefore be presented at the next E-MIG workshop in November.

4 – Concrete actions are being worked out to support the implementation process in the identified CEE markets that are lagging behind, starting with the Corporate Actions Standards. These measures include the appointment of “coaches” on the T2S model and the organisation of a regional conference with the support of the respective European trade associations.