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Broad Stakeholder Group (BSG)

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

5th Implementation Progress Report & 2012 Activity Report

February 2013

Executive Summary

- ✓ In 2012, the BSG focused its activities on **promoting, explaining and informing** about the market standards within the industry and across European markets. Several well attended events took place in Budapest, Madrid, Luxembourg and Paris.
- ✓ **Two E-MIG workshops took place in 2012** to discuss progress in the implementation and application of the market standards.
- ✓ **Central and Eastern European markets are now firmly engaged in the process.** Supporting measures have been taken to assist them in the establishment of national MIGs and in the application of the market standards. Significant progress have been made since then.
- ✓ The market standards offer **net benefits to all market participants** and contribute to the harmonisation of the post-trade landscape in Europe.
- ✓ Overall, progress in implementing the **Market Standards for Corporate Actions Processing** is steady but slow.
- ✓ It is proposed to consider a possible start of implementation of some elements of some of the **Market Standards for General Meetings.**
- ✓ The BSG will **continue to improve awareness** of the standards in the markets and constituencies. It will also **continue liaising with public authorities** to discuss the dismantling of legal and regulatory obstacles impeding an effective application of the market standards.

1. Introduction

The purpose of this report prepared by the Broad Stakeholder Group (BSG) is to inform the European authorities on the state of implementation of the Market Standards for Corporate Actions Processing and the Market Standards for General Meetings. These two sets of market standards aim at dismantling the third barrier to an efficient single European market for clearing and settlement of securities transactions identified by the Giovannini Group. These standards also fit into today's post crisis agenda as they contribute significantly to the safety and stability of financial markets in establishing 'state-of-the-art' principles and rules to reduce operational risk in processing Corporate Actions events.

What is the Broad Stakeholder Group?

The Broad Stakeholder Group (BSG) is an all-inclusive industry body made up of all relevant parties in the securities' value chain which have endorsed the standards, with the participation of senior representatives of the European key stakeholder associations and their respective members*. The BSG provides the necessary impetus by steering, organising, monitoring and coordinating the implementation process at European level. The BSG assesses the effectiveness of the peer review process of the E-MIG and engages in the necessary dialogue in order to define and implement remedial steps where implementation process at national level lags. The BSG also promotes the standards towards market participants and the authorities where necessary, notably by means of a pool of experts who actively participated in setting the standards. It liaises with external bodies (e.g. T2S) and non-European markets. Finally, the BSG reports directly to the European Commission, the European Central Bank and the European Securities and Markets Authority on progress made in the application of the standards. The BSG is currently chaired by the EBF on behalf of the European Credit Sector Associations.

* These are the European Issuers, the European Central Securities Depositories Association (ECSDA), 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 Federation of European Stock Exchanges (FESE) and the European Association of Clearing Houses (EACH). Euroshareholders has an observer status.

The report follows the European Market Implementation Group (E-MIG) workshops of 12-13 June 2012 in Milan (at Monte Titoli) and 15-16 November in Zurich (at SIX Swiss Exchange). It is part of the commitment made by the BSG to steer, monitor and coordinate private sector actions towards a comprehensive and timely application of the Market Standards for Corporate Actions Processing and for General Meetings.

This report is split into seven sections including the present introduction and conclusion. The second section reminds about the governance of the process while the third section highlights what are the benefits of the market standards. Section 4 provides a summary of the initiatives which were taken in 2012 to support the application of the standards by the market participants at local level. Sections 5 and 6 present the conclusions drawn up from the last E-MIG workshops of November 2012 on Corporate Actions (implementation progress) and General Meetings (gap analysis progress) respectively. This report does not contain the individual country reports that were presented and discussed at the workshops (these are at disposal of the European authorities by the BSG).

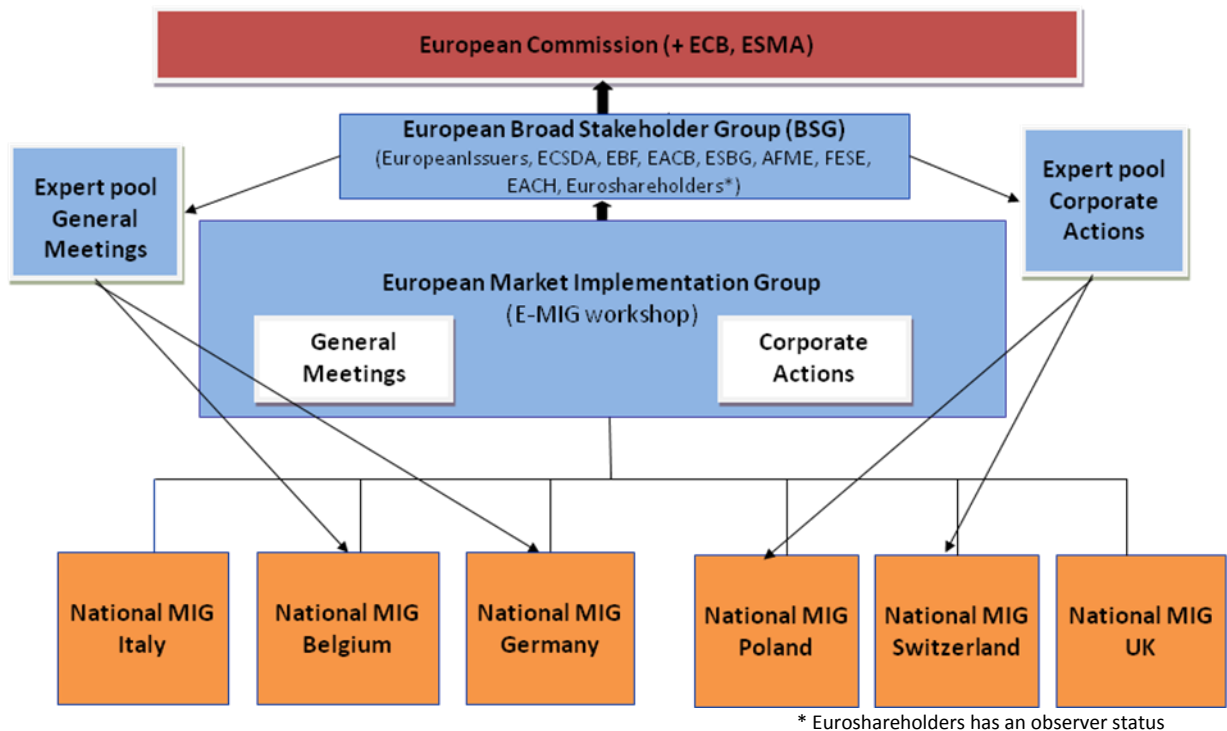
Where to find the Market Standards?

The Market Standards for Corporate Actions Processing and the Market Standards for General Meetings can be found on the respective websites of the European trade associations who participate in the BSG. A dedicated page on the [EBF website](#) gives access to all relevant information as regards the process of market standards (summary of workshops, previous BSG reports, ...), in addition to the texts of the standards themselves.

2. Governance of the Process

The responsibility for the actual implementation of the standards by the local market participants resides at national level with the national Market Implementation Groups (MIGs). The MIGs include experts representing the different stakeholders active in the securities' service chain, namely the issuers, the market infrastructures for trading, clearing and settlement and the banks acting as intermediaries. MIGs have been established and are active in all countries of the European Economic Area, with the exception of Malta and Iceland¹, making this harmonisation exercise a pan-European initiative.

The industry has established a process whereby it monitors, at European level, the implementation of the standards conducted at national level. The governance of this monitoring, and reporting, process is as follows:



The coordinators or chairpersons of the national MIGs meet twice a year in a European MIG (E-MIG) workshop format to present and discuss the progress made in the implementation of the standards and to exchange experience on technical issues. The E-MIG meetings allow for peer review and facilitate a common understanding of the standards by all market participants. The E-MIG then reports to the BSG on the outcome of the workshops. The BSG then reports to the European Commission and other European public authorities.

The two joint working groups which developed the standards (the Corporate Actions Joint Working Group/CAJWG and the Joint Working Group on General Meetings/JWGGM) remain as pool of experts who are at disposal of the MIGs for technical assistance. With that in mind, the BSG has established a coaching system to assist markets in Central and Eastern Europe (CEE) in setting up local MIGs and in starting working towards implementation of the market standards. As owners of the standards, both joint working

¹ The BSG is in close contact with Maltese market participants and authorities regarding the setting up of a local MIG.

groups can review and possibly revise individual standards upon request (from the BSG for instance).

This remit encompasses the implementation monitoring of the standards for distributions and reorganisations. The monitoring of the implementation of the standards for transaction management is implicitly part of the extended mandate of the T2S Corporate Actions Sub Group (CASG).

Who monitors the implementation of the standards for transaction management?

More detailed rules for transaction management have been elaborated in the context of Target2-Securities (T2S). These rules are however fully consistent and compliant with the respective standards worked out by the CAJWG on which they are based. Now that the participating CSDs have signed the T2S Framework Agreement, the responsibilities to monitor the implementation in regard of transaction management standards/rules have been determined as follows to avoid any overlap or underlap:

- The T2S CASG will monitor EUR-based markets participating in T2S and non-EUR based markets/CSDs participating in T2S to the extent of their participation in T2S with their EUR denominated business.
- The E-MIG will monitor all non-EUR based markets.

The reporting on implementation progress by the BSG and information to the European Commission is provided for by agreed cooperation between the T2S CASG and the E-MIG/BSG and by multiple cross-memberships between the two bodies.

3. Benefits of the Market Standards

The differences in national rules, information requirements and deadlines for Corporate Actions processing are significant obstacles to an efficient and integrated European Single Market for clearing and settlement of securities transactions. This fragmentation also poses potential risks to financial markets given the significant increase in cross-border investment activities and the complexity of Corporate Actions processing.

Based on existing or emerging industry best practices, the market standards offer net benefits to all market participants and contribute to the harmonisation of the post-trade landscape in Europe.

What are the main benefits of the Market Standards?

- ✓ Harmonised operations and processing rules across Europe.
- ✓ Standards are based on existing or emerging best market practices.
- ✓ More efficiency in processing (e.g. STP), hence less complexity.
- ✓ Reduction of operational risks, hence increased stability of financial markets.
- ✓ Reduction of cost throughout the value chain.
- ✓ Enhance legal certainty.
- ✓ Enhance liquidity of Europe's capital markets.
- ✓ Enhance investors' participation in companies' life, hence contribution to corporate governance.
- ✓ Benchmark for modern and competitive Europe's capital markets.
- ✓ Domestic markets to be increasingly attractive for foreign investors.
- ✓ Contribution to the goals and success of T2S.
- ✓ Contribution to the harmonisation of Europe's post-trade environment.

4. Activities of the BSG in 2012

In 2012, the BSG focused its activities on promoting, explaining and informing about the market standards within the industry and across European markets. A well attended [seminar](#) on *European Market Practices Standards for Corporate Actions & General Meetings* was organised in Budapest on 7 February 2012 to kick off the implementation process in the CEE countries. Following this event, several bilateral meetings took place between the BSG coach (a member of the CAJWG who is a senior securities market expert in a large European bank) and market participants in those countries in order to establish all-inclusive MIGs at national level and to start working on the implementation/gap analysis. Significant progress have been made since then and the standards have become instrumental in meeting future developments in the CEE markets, e.g. the increase in cross-border activities.

Thereafter, at the invitation of KELER, the Hungarian CSD, the EBF Secretariat and the BSG coach made some detailed presentations on the market standards on 7 June in Budapest at the inaugural [meeting](#) of the Hungarian MIG. A similar [event](#) took place on 28 September in Luxembourg, under the initiative of the Luxembourg Bankers' Association (ABBL), to launch the newly established local MIG. Similar events could possibly take place in Malta, Romania and Bulgaria in the next months as well.

Presentations were also made by the EBF, AFME and EuropeanIssuers on 20 June in Madrid at a large [event](#) organised by the Spanish Issuers Association (Emisores Españoles), with the support of the Spanish Banking Association and the Spanish Securities Market Commission, in the context of the ongoing reform of the Spanish settlement system. Finally, the EBF Secretariat participated in a roundtable organised in Paris on 24 October in the context of an AFTI (Association Française des Professionnels des Titres) event to raise awareness among French participants about the process of market standards, notably in the context of the migration to T2S.

The BSG will continue encouraging, stimulating and facilitating all local initiatives towards a comprehensive and timely application of the market standards across Europe.

5. Market Standards for Corporate Actions - Implementation progress

The E-MIG workshop of June 2012 concluded that, despite real progress better than reflected in statistics and graphs, there are real causes that impair the implementation progress of the Market Standards for Corporate Actions Processing and that increase the risk of momentum getting lost. As a consequence, a prioritization of standards, but not markets, was required. The CAJWG was mandated therewith and the objectives of the last workshop in November 2012 were to continue assessing the Europe-wide state of implementation of the prioritised standards by focusing on:

- End-to-end communication;
- Key dates and their sequences;
- Internationally held and traded securities;

The BSG notes that 23 markets out of 31 completed progress reports in the context of the November 2012 workshop. The missing markets are: Czech Republic, Hungary, Iceland, Latvia, Lithuania, Luxembourg, Malta, Slovakia². Overall, there is a steady but rather slow progress. The below charts shows the current implementation status on the basis of the progress reports received by the time of the workshop of November 2012, together with the

² Hungary and Luxembourg have informed that they will report for the next workshop in June 2013. Latvia and Lithuania reported in November 2011.

situation of June 2012 when the previous workshop took place (note that the situations in Spring and Autumn are not comparable as the Autumn reporting only focused on prioritized standards while the Spring reporting covered all standards):

Chart 1: Implementation status for the Corporate Actions Standards – 8 major markets³:

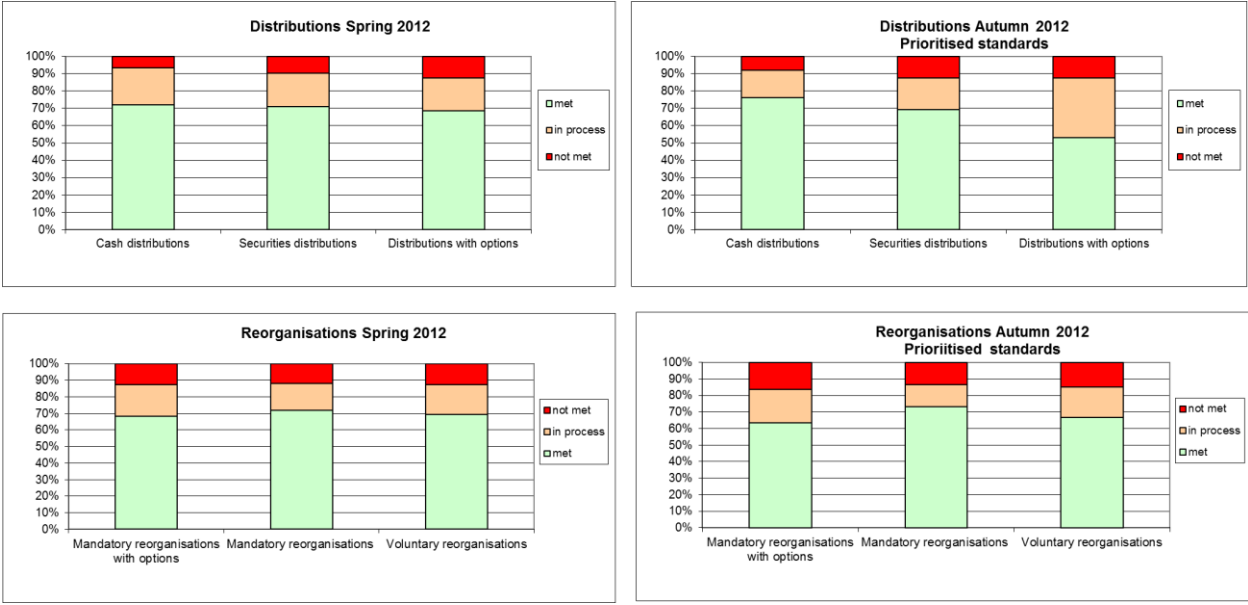
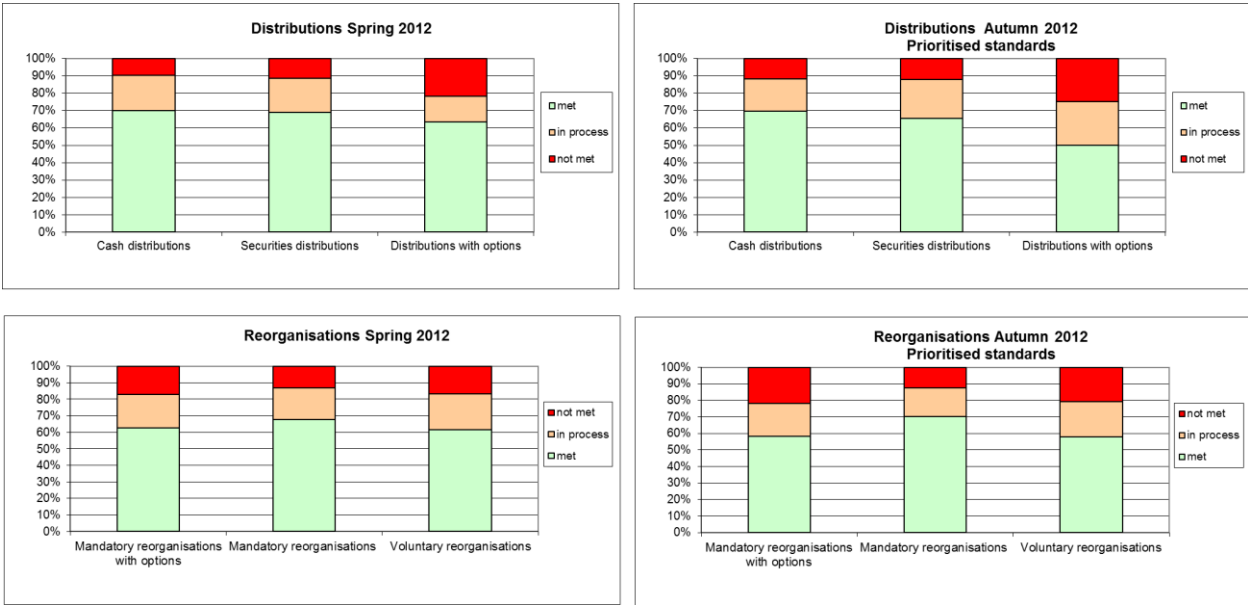


Chart 2: Implementation status for the Corporate Actions Standards – All reporting markets:



The **conclusions** of the November 2012 E-MIG workshop are as follows:

- Overall progress in implementing the standards is steady but slow; however, efforts of acceleration would most likely result in unwanted cutting of corners.
- The prioritization of standards is deemed helpful to apply limited resources in a focused manner; an additional prioritization for markets with lower level of implementation is not deemed advisable.

³ These markets are: France, Germany, Italy, The Netherlands, Spain, Sweden, Switzerland, UK.

- The target date of 2013 for full implementation is unrealistic; major markets agreed to present plans to remove all items currently marked red ('not implemented') by the time of the next E-MIG workshop in June 2013.
- Targeted transfer of experience, e.g. 'plug and play' solutions, acceptance and buy-in of the standards by wider relevant constituents, will be on the agenda of the next E-MIG workshop in June 2013.
- The availability of support to CEE markets has been confirmed; CEE markets to articulate specific requests for support.

Finally, Q&A are being developed to provide clarification where required. National MIGs have been invited to submit their questions to the CAJWG that will act as the centre of competence developing the answers.

What do the Market Standards for Corporate Actions Processing cover?

Categories of Corporate Actions:

- Distributions (cash, securities, with options).
- Reorganisations (mandatory, mandatory with option, voluntary).
- Transaction management (market claims, transformations, buyer protection).

Scope of application:

- All types of Corporate Actions.
- All securities deposited and settled in book-entry form with an (I)CSD in Europe.
- All parties involved in the value chain.

Subject matter:

- Information flow throughout the chain of relevant parties, starting from the issuer to the end-investor, via the Issuer CSD and intermediaries, using ISO message format.
- Key dates and their sequence, to ensure payment is made directly to the entitled party.
- Operational processing of Corporate Actions.

6. Market Standards for General Meetings – Gap analysis progress

In 2012, the two E-MIG workshops on the Market Standards for General Meetings discussed progress in the gap analysis. The objective of the gap analysis is to assess the market standards against the local market practices and the legal and regulatory requirements in order to identify the possible obstacles before implementation and discuss effective solutions. For the time being, the focus of assessment is on the situation for domestic General Meetings.

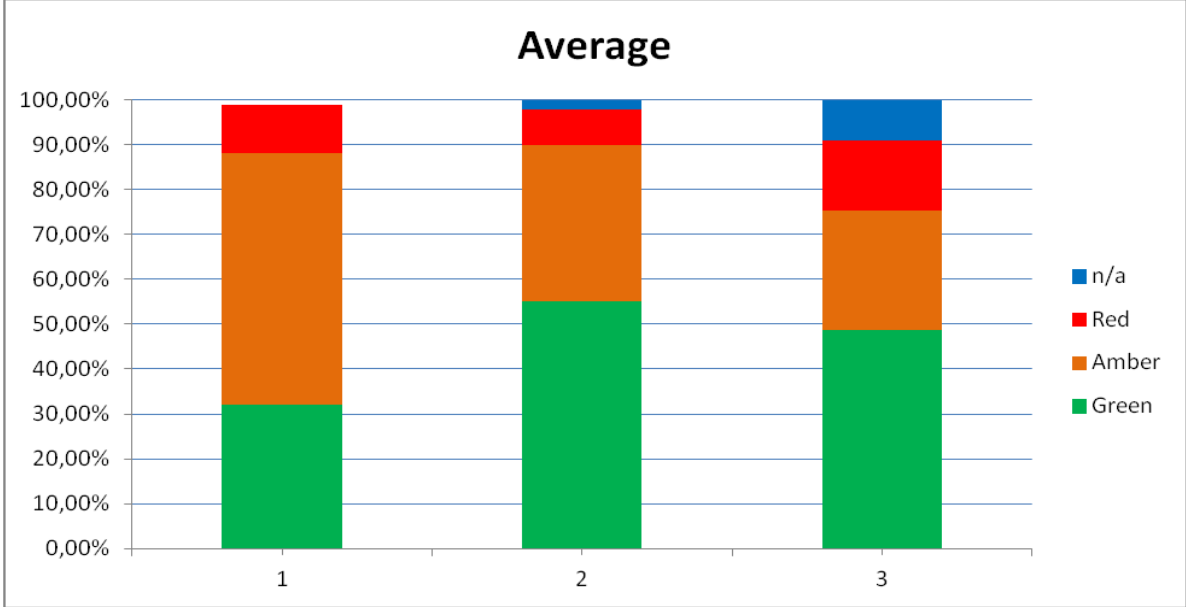
The gap analysis includes a facts finding to list and describe Record Date schemes and other requirements to participate and vote at General Meetings. The November 2012 workshop also discussed the proposal to have new Frequently Asked Questions in addition to the existing ones.

The BSG notes that 23 markets out of 31 reported on progress in the gap analysis in the context of the November 2012 workshop. The missing markets are: Bulgaria, Hungary, Iceland, Lithuania, Luxembourg, Malta, Portugal, Slovakia⁴. As for the Market Standards for Corporate Actions Processing, there is overall a steady but rather slow progress. Two markets declare themselves as fully compliant (Italy and Latvia). The below chart shows

⁴ Bulgaria, Hungary and Luxembourg have informed that they will report for the next workshop in June 2013. Lithuania reported in November 2011.

the global consolidated overview for the three processes covered by the standards (process 1, 2 and 3) on the basis of the progress reports received by the time of the workshop of November 2012:

Chart 3: Gap analysis progress status for the General Meetings Standards – All reporting markets:



The **conclusions** of the November 2012 E-MIG workshop are as follows:

- The workshop has shown strong engagement from national MIGs in addressing the Market Standards for General Meetings, in addition to the Market Standards for Corporate Actions Processing.
- The workshop has allowed for a far better understanding of the rationale behind the market standards and has been very helpful in ensuring a common reading of the standards.
- Newly established MIGs in CEE countries were invited to report for the next workshop.
- A common understanding of the concept of ‘Record Date’ is necessary. More convergence on that question would be needed. Such common understanding would be useful for several issues.
- Proposal to consider possible start of implementation of some elements of some standards (related to the process of Meeting Notice).
- The E-MIG will go back to the national MIGs with a list of action points to consider for the next workshop.

What do the Market Standards for General Meetings cover?

Categories of processes, focusing on the phase preceding the General Meeting:

- Meeting Notice (process 1).
- Record Date and Entitlement (process 2).
- Notification of Participation (process 3).

Scope of application:

- Domestic and cross-border operational processes.
- All types of General Meetings for shares, both bearer and registered shares, provided they are (i) issued by an issuer having its registered office in the EU and whose shares are admitted to trading on a regulated market situated or operated in Europe, and (ii) held with an Issuer CSD operating in Europe.
- All parties involved in the value chain.

7. Conclusions & Next steps

1 – The BSG will continue to improve awareness of the standards in the markets and constituencies across Europe.

2 – The BSG will continue liaising with public authorities to discuss the dismantling of legal and regulatory obstacles impeding an effective application of the market standards.

3 – New actions need to be taken to improve the participation of some stakeholders in the process.

4 - The coaching system put in place by the BSG to assist market participants in CEE countries has proven to be very useful. The BSG will continue to provide support where needed and when requested.

5 – The BSG will meet in Q1 2013 to discuss horizontal issues linked to the process of market standards.

6 - The next E-MIG workshop is planned to take place on 13-14 June 2013 in Stockholm.