

ISSA Working Group update – Global Corporate Actions, Towards a More Efficient Corporate Actions Processing Environment

Ranjit Chatterji, ISSA Working Group Leader and Head Custody Business Development and Network Management at Citi's Securities and Fund Services business, presented ISSA's update on Corporate Actions. This has been an extended effort due to resistance on the part of issuers, but progress has been made in geographic areas like Japan and Mexico, where issuers worked with exchanges and depositories. Additionally, proxy voting related principles / best practices have been added in the project and Broadridge and ISS have joined the working group to provide additional expertise. The report analyzes 9 Corporate Actions principles, the most difficult being number 3 which requests issuer sourced key information / input. Furthermore, and predominantly as an incentive to issuers, 4 principles for proxy handling have been added.

International Securities Services Association

16th ISSA Symposium

Global Corporate Actions Working Group Update

Towards a More Efficient Corporate Actions Processing Environment

Ranjit Chatterji **June 7, 2012**

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When the ISSA Corporate Actions Working Group started work on developing its nine global principles – published two years ago – we had taken a conscious decision to exclude Proxy services, as the scope of what needed to be covered was already broad. Over the first half of 2012 the group decided to re-visit this subject, and to propose additional principles specifically related to Proxy. Broadridge and ISS both joined the Working Group, and naturally their contributions as subject-matter experts were critical.

Earlier, following the completion of the 2010 report, efforts in 2011 had focused on outreach to industry and issuer groups on automated Issuer-to-Investor communication.

In Europe, we did this in a series of joint educational seminars (in London, Zurich, Frankfurt and Paris) together with AMFE, ISMAG, the European Joint Working Group on Corporate Actions and the European Joint Working Group on General Meetings. The ISSA principles were promoted as the global framework, under which the European expert groups then presented their more detailed work in the context of European regional standardization projects.

The collaboration between ISSA and other bodies working on the same issues was valuable. Tangible progress however has been limited, except in the sense of helping to bridge the communications gap between issuers and their agents as well as Exchanges on the one hand, and intermediaries dealing directly or indirectly with investors.

Also, those roadshows yielded the insight for us that the issuer community is more willing to discuss corporate action best practice proposals with the market intermediaries, if the subject is the improvement of general meeting and voting processes, rather than just corporate actions in the narrow sense. That insight led to our decision to cover Proxy Voting as well, so that we would have a more effective "hook" to gain the issuer community's attention.

In the absence of attention from regulators (with more than enough at present on their plates), progress on this front is likely to remain slow. But there have been pockets of success, such as the XBRL pilot for ADRs in the US market.

Regular updates of progress in each region against proposed global principles proved to be impractical to follow through on, though an update was prepared by members for Europe and an excellent update was received from South Africa. A proposal from SWIFT to develop White Papers on detailed market practices in selected countries was reviewed; our conclusion was that it was laudable but difficult to execute. Besides Issuer-to-Investor communication, the lack of global unique event identifiers in many markets was identified to be one gap from the principles that continues to need concerted action.

Update Summary

- 1. PROXY – Agreed we will add Proxy-related Principles after reviewing current best practices. Broadridge and ISS joined Working Group and played a critical role in making this happen.**
- 2. ISSUER-TO-INVESTOR communication. Outreach paper updated; outreach continued with limited results. US ADR pilot launched. SWIFT White Paper concept reviewed.**
- 3. Other key open gaps – Unique Reference Numbers**

Annex: Global Corporate Actions Principles, full wording: Proxy

In developing Proxy Principles the Working Group followed the same approach as earlier in 2009/10 – recommending existing best practices that merit global attention or adoption, avoiding re-inventing the wheel.

Approach

Identify existing best practices and recommendations that could merit global adoption.

- Do not re-invent the wheel; synthesize existing and emerging industry initiatives
- Join hands with relevant industry organizations
- Highlight recommended *existing* practices
- Identify areas that still need concerted action

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The Working Group members were most of the members of the original, expanded 2010 group, plus Broadridge and ISS. We should acknowledge the contributions of two members – UBS and Broadridge – who did much of the heavy lifting.

ISSA Core Working Group

Initially, a small group of specialists identified and analyzed current key initiatives

	Citi
	Deutsche Bank
	Goldman Sachs
	JPMorgan
	UBS

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ISSA Expanded Working Group

Key infrastructures and other players then joined, adding perspectives, to produce a broadly supported proposal

	DTCC	→	ACSDA "North"
	Indeval	→	ACSDA "South"
	JASDEC	→	Asian CSD Group
NOMURA	Nomura	→	"ISSA Japan"
	Euroclear	→	ECSDA, ISMAG
	Clearstream	→	ECSDA, ISMAG
	SWIFT	→	SMPG, APASWG

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2012 ISSA Expanded Working Group - Proxy

Broadridge and UBS led the effort, with help from ISS and several of the original Working Group members

	Broadridge	Broadridge
	ISS	Institutional Shareholder Services

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An updated report incorporating the new Principles and a revised Outreach paper is being posted on the ISSA website. Specifically on Proxy, there were four principles added: two on electronic voting and pre-meeting vote lodgment, and two on post-meeting vote confirmation and announcement of meeting results.

Scope and Structure of the Original Report (2010)

Five areas of analysis....

1. Paperless, Automated Information Exchange
2. Event Creation
3. Event Communication
4. Event Processing
5. Transaction Management, Unsettled Transactions

.... lead to a set of
nine principles

1. STP and ISO Standards
2. Message Content
3. **Issuer Sourced Key Information**
4. Required Information
5. **Unique Identifiers**
6. Timeliness of Notification
7. Process Harmonization
8. Publication of Event Processing Rules
9. Protecting Investors' Rights

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Additional Principles on Proxy (2012)

Three areas of analysis....

1. Voting
2. Pre-meeting vote lodgment
3. Post-meeting communication

.... lead to a set of
four additional
principles

1. Electronic voting
2. Electronic pre-meeting vote lodgment
3. Post-meeting vote confirmation
4. Communication of meeting results

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General Meeting, Proxy Voting

10. Electronic Voting

Issuers (or their agents) should take all necessary action **to enable their shareholders to vote electronically**. The definition of electronic voting must not be limited to the ability of shareholders (or their agents) to key votes manually into the issuers' (or their agents') web platform. The focus for electronic voting should be **adherence to ISO format** structured and standardized data where 'wholesale' voting is involved.

11. Confirmation of Pre-meeting Vote Lodgment

Issuers (or their agents) should **confirm the receipt** of votes and, if found valid, that they will be cast in the general meeting as directed. If rejected, **reasons** why and (where possible) instructions and sufficient time to enable remediation should be given. Intermediaries should relay all communication immediately to the ultimate shareholders through the chain of investment. As with other corporate actions processing, electronic communication as outlined in Principle 1 should be the norm.

12. Post-meeting Vote Confirmation

Issuers (or their agents) should **confirm as soon as possible the execution** of votes as instructed. Intermediaries in the chain should, in turn, confirm to all parties who participated in the voting, that their votes were cast, using the same communication channels as those through which the vote was received.

General Meeting, Proxy Voting (contd.)

13. Meeting Results

Upon receipt from the issuers (or their agents), market intermediaries should communicate the outcome of each voting event either directly or by notifying shareholders of the availability of the results on a public website.

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