

Global Principles for Corporate Actions Processing and Proxy Voting

ISSA endorses the 13 global principles set out below, which aim at reducing risk, improving efficiency by minimizing ambiguity in communication, establishing workable timelines, enabling straight-through processing, and promoting international harmonization of end-to-end standards for corporate actions and proxy voting.

The full report and supporting documentation is available on ISSA's website www.issanet.org

The Issue

Compared to securities clearing and settlement, where very significant improvements have been made in efficiency and risk mitigation globally in the last 20 years, the asset servicing space has experienced more modest gains. There are at least five reasons:

- A broader range of players and functions impacting the process, some with little perceived incentive to change practices.
- Greater complexity, fuelled by innovation on the part of issuers and their agents, making standardization difficult; and longer duration.
- Less regulation across the spectrum of players, in most parts of the world.
- A tendency for problems to have less visibility, and direct impact on fewer players versus clearing and settlement with its credit, liquidity, and systemic risk components.
- No crisis (as yet): partly because better settlement infrastructures have helped, partly because of historically manageable volumes that have, however, ramped up sharply in recent years.

It is precisely the growing complexity and the steady growth in volumes that are now threatening to raise risk as well as cost to unsustainable levels. The key root causes of the problems are the lack of usage of standardized event terms and definitions throughout the processing chain and the corollary weaknesses in automation, or lack of it. The complexity of a number of event types also means that room for interpretation, and therefore dispute, is significant; and that the reliance of firms on a pool of scarce, highly trained and experienced specialists is high.

Unlike in the securities clearing and settlement space, buy-side and sell-side market participants and their agents and infrastructures are only a part of the equation. The other vital parts are issuers and their agents (registrars and transfer agents, issuing and paying agents), their investment bankers (lead managers and co-managers of the issue) and their lawyers. Event creation and action on voluntary events depends on issuers, their agents and their bankers. Without the active participation of all these players in cross-industry initiatives, in each market and across markets, standardization is impossible to achieve. The involvement of regulators may be necessary to achieve it.

Objectives and Scope

A number of valuable efforts to design standards and define best practice already exist, or are under way in various parts of the asset servicing space around the world. ISSA's primary objective is to distil and highlight completed and ongoing best practice initiatives, wherever they are, rather than issuing 'yet another' set of recommendations. In addition, ISSA wishes to play a role in helping to align the efforts among the various industry groups and advocate these principles globally to relevant stakeholders — the entire securities investment industry, issuers and their agents, and regulators, thus avoiding redundancy.

The proposed global principles cover corporate actions, income processing and proxy voting end-to-end, including cash and stock distributions as well as reorganizations; for listed equities and for fixed-income instruments held in book-entry form at central depositories. Class actions, tax processing and foreign ownership limit reporting were left out of scope. Unlisted securities were not excluded from the project scope but differences between listed and unlisted securities were not examined.

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Paperless, Automated Information Exchange

1. Straight-Through Processing (STP) and ISO Standards

Communication should be electronic to ensure an STP flow along the intermediary chain from the issuer to the investor and vice versa. Messaging must be in ISO format and in structured standardized data form across the issuer to investor chain. In implementing ISO standards, local market practice will be adopted as defined by NMPGs (National Market Practice Groups), and ISO 'Extensions' adopted if agreed local market practice cannot be accommodated within the existing global standard and harmonized global market practice.

2. Message Content

The content of messages must be clear, contain all known key information and be unambiguous. In particular, all key dates and critical information affecting an event must be carried in the event announcement, including a record date for elective events that is prior to the election deadline.

Event Creation

3. Issuer Sourced Key Information

Key summary information must be created by the issuer. It should be, at a minimum, consumable and accessible using the ISO repository of data elements and subsequently usable in structured ISO format and should be simultaneously published to the local exchange and CSDs, regulators and the open market. Issuers should also make prospectus documents (e.g. event terms and conditions) available on public websites. Updates should contain all known information, as a best practice, and recipients should manage any discrepancies from previous messages.

4. Required Information

Subject to compliance with legal requirements, only information that is required for the event type should be carried in the announcement, i.e. only data functionally necessary for processing in an electronic, structured way, as defined by designated organization(s) in each market, implementing standards consistent with global ISO standards. This information must be unambiguous. Other optional information should be retained and accessible at source.

5. Unique Identifiers

Required information must include a unique global event identifier that is assigned at the earliest possible point and remains with the event throughout its lifecycle, despite updates. Issuer and security codes should uniquely identify the issuer as well as the listing location, e.g. using ISIN and MIC.

Event Communication

6. Timelines of Notification

Notifications and updates to the chain of intermediaries and to the end investor must be made in a timely manner and as close as possible to the issuer's announcement date and time. Sufficient notice to execute the event, including amendments to the event, must be given to allow all parties to complete the process effectively before the event deadline.

Event Processing

7. Process Harmonization

- Where global or regional standards do not already exist, each market should agree its standards for corporate actions processing and, in parallel, aim at convergence of standards across markets.
- Processing should involve book-entry payments for both cash and securities proceeds.
- Standard election option identification conventions should be adopted to facilitate the election process.
- Clear rules should be published by markets on the processing of reversals, which should be pre-advised in all cases and should require the prior consent of intermediaries beyond agreed deadlines and amounts.

8. Publication of Event Processing Rules

Event processing rules and templates should be harmonized as far as possible, and published in a coordinated way for global consumption and adherence.

Transaction Management, Unsettled Transactions

9. Protecting Investors' Rights

Clear rules concerning buyer protection, market claims (and any other instances where buyers' rights may be affected) should be established in each market and consistently followed, if possible by a central market infrastructure. Equally, consistent transformation methods should be established and applied.

General Meetings, 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.

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.