

# ISSA



## **Global Principles for Corporate Actions and Proxy Voting**

A contribution to align current industry efforts to achieve  
a more efficient global corporate actions and proxy voting processing environment

**2010 Report on Corporate Actions expanded  
to include General Meetings and Proxy Voting**

June 2012

**Disclaimer:**

Neither ISSA nor the authors of this document accept any responsibility for the accuracy or completeness of the information contained herein.

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**Part II Annexes (separate Document)**

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- A** Event categories and the roles of the different actors
- B** Event creation
- C** Event communication
- D** Event processing
- E** Claims and unsettled transaction management
- F** EU Market Standards for Corporate Actions Processing: Implementation plan on national and European Level

**Part III Market Survey**

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## 1. Introduction

### 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 investment bankers 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.

In Europe, the various capital market harmonization initiatives have highlighted corporate actions as a complex area which is being addressed in a concerted fashion.

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 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

Complex corporate events will not disappear simply because they may present operational challenges. There is a clear need to raise the awareness of certain constraints and requirements which the different stakeholders have. The goal is to achieve better end-to-end processes *and* greater process harmonization across markets.

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. The purpose of this paper is not to issue 'yet another' set of corporate action recommendations. ISSA's primary objective is to distil and highlight completed and ongoing best practice initiatives, wherever they are. We want to identify local or regional best practices that seem suitable for implementation on a wider scale - in dialogue with the groups who articulated them - and act as a catalyst to help achieve the desired leverage. In addition, ISSA wishes to play a role in helping to prevent multiple bodies working on the same issues in independence of each other, thus avoiding redundancy.

### Summary Objectives

- **To synthesize existing and emerging global industry initiatives** on corporate actions processing and proxy voting and thereby **publish principles** that would facilitate risk reduction, efficiency, investor protection, and issuers' ability to reach a broad investor base, highlighting gaps in current practices and areas that would benefit from concerted action.
- **To facilitate the alignment of 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 — and facilitate the monitoring of issues and developments in key markets around the world, with respect to the principles.
- **To highlight recommended practices being implemented or planned around the world**, and provide a one-stop reference point to relevant work being done by industry groups globally, with links to their websites.

### Scope

This document describes proposed global principles for improving the standardization of corporate actions and 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, synthesizing or rationalizing current industry initiatives. Class actions were considered but left out of scope. Tax processing and foreign ownership limit reporting are not in scope. Unlisted securities were not excluded from the project scope but differences between listed and unlisted securities were not examined.

### Addressees of this Report

This paper is addressed to issuers and their agents, market intermediaries such as custodian banks, asset managers, industry associations/groups, market infrastructures and regulators. We encourage them to support (if not yet in place) the establishment of Market Implementation Groups (MIGs) by elaborating:

- a framework for adapting requirements to local market needs
- suggestions for cross-market co-ordination within and across regions, including the monitoring of the progress

Further, this paper is suggested reading for all individual market participants and their agents involved in designing, announcing and processing corporate events. It is a contribution to cross-fertilize the industry and improve the understanding of all elements of a successful end-to-end process. All interested parties are invited to join the dialogue with ISSA on what remains to be done to close the gaps and achieve progress jointly, to the benefit of all market participants and their clients.

### Acknowledgements

This report is the result of an effort by a small team of experts drawn from ISSA members and third parties, led by Citigroup. A number of ISSA member firms and third parties supplied valuable market information, covering more than 50 markets. The names of all participating firms and the individual contributors are listed on page 35. Their original input is accessible on [www.issanet.org](http://www.issanet.org). The ISSA Executive Board wishes to thank all supporters for their personal contribution and their firms for having enabled their participation.

This report draws on work completed or currently driven by a number of other industry groups. They are listed in Section 4.

## 2. Global Principles

ISSA endorses the following principles 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.

### 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.

**Explanatory Notes****Event Creation and Event Communication**

Event creation and announcement will follow legal requirements in the issuer's jurisdiction but include internationally agreed required static and dynamic data, with clear ownership of each data field and provisions for local exchanges and depositories to add designated data fields which they are responsible for. Issuers should be aware that transmission of the announcement to the ultimate investor may involve multiple intermediaries and time zones. Announcement will therefore be completed with sufficient notice for intermediaries (and investors, for elective actions) to execute instructions (and decide, for elective actions). Normally this will mean issuer's announcement at least five business days before record date or at least 15 business days before market deadline, as applicable, with intermediaries relaying information within one business day of receipt. Timeframes should be established beyond which changes will require extension of record dates or market deadlines.

Annex B provides additional information on event creation and the scope and content of information to be communicated.

"Required data" should be distinguished from "information required by the investor to make an investment decision". The former relates to data functionally necessary to process the transaction in an electronic, structured way. This information must be unambiguous, such as clearly distinguishing between voting/non-voting items on meeting agendas and, for market intermediaries, entitlement amounts which take into account local market practices around securities lending, and should not exclude the use of text in defined fields as used in ISO formats. The latter should be kept to the minimum. Investors should recognize that it remains prudent to refer to the prospectus as the ultimate source of complete information.

The goal should be to have event information transmitted in structured format from the issuer across the chain to the investor. Until such information is made available, infrastructures should be responsible for picking up relevant information and relaying it accurately and as early as possible through the intermediary chain to the investor. There must be provision for enrichment by addition of designated data fields by CSDs and exchanges.

The issuer or its agents, and (until electronic announcements in standardized formats are in place) issuer's CSD or designated data distributor, and all intermediaries will be responsible for passing on event-related information and any update in an electronic, structured way to the next point in the chain as soon as possible. The information flow between the issuer's CSD or data distributor and successive levels of investor intermediaries will be in structured ISO format<sup>1</sup> and, where applicable, according to agreed service level agreements. Any narrative text should be in an internationally accepted language in the industry, currently English. Free

<sup>1</sup> As an example of implementation: There is currently a joint initiative driven by SWIFT, DTCC and XBRL US promoting the use of XML/XBRL in conjunction with ISO 20022.

text narrative should only be used if there is no other way to convey the information. The goal of getting structured information directly from the issuers should really extend beyond corporate actions to terms and conditions of original issuance<sup>2</sup>.

### *Key dates*

Besides announcement and payment dates, key dates common to all types of corporate actions are:

- Ex-Date<sup>3</sup>, for all distributions, preceding record date by one settlement cycle minus one business day
- Record-Date<sup>4</sup>, for all distributions and mandatory reorganizations without options; and for determining the entitlement to vote
- Start of election period, for all reorganizations with options and distributions with options, preferably minimum 10 business days before market deadline
- Buyer protection deadline and market deadline, for all reorganizations and distributions with options (buyer protection deadline preceding market deadline)
- Last trading date, preceding record date by minimum one settlement cycle; for mandatory reorganizations only.
- Guaranteed participation date, for voluntary reorganizations (as a best practice: preceding the buyer protection date by minimum one settlement cycle plus two hours)

### **Event Processing**

Processing for all event categories should utilize standardized data in ISO format (using the Securities Market Practice Group's Event Interpretation Grid) and standardized deadlines per category. Processing should involve book-entry payments, credit of benefits on pay date, and electronic election instructions where applicable. Rules for handling fractions and for determining entitlements for borrowed securities should be clear and harmonized not only across all issuers per market but also for cross-border business. Reversals should be advised within reasonable and agreed timeframes. Market defaults should be applied to loaned or borrowed positions if not otherwise agreed in service level agreements.

For elective corporate actions, deadlines should be adjusted by issuers only under exceptional circumstances and if permitted by applicable laws. Intermediaries should follow-up for late elections (depending on service level agreements), and default options previously notified should be applied if a client does not elect.

Distributions with options will be represented by an interim security and treated as two separate corporate actions announced simultaneously, the first being a distribution, the second a mandatory reorganization with options<sup>5</sup>. For reorganizations with options, each option should have a unique identifier specified by the issuer, and a new ISIN should be allocated to each outturn security.

To minimize systemic risk and reduce inefficiencies and re-work, 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.

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<sup>2</sup> as pointed out by ISMAG

<sup>3</sup> Ex-date: Date from which trading (Exchange and OTC) occurs on the underlying security without the benefit / the right at the intermediary level.

<sup>4</sup> Record-date: Date on which settled positions are struck in the books of the issuer CSD at close of business to determine the entitlement to the proceeds of a corporate action or to determine voting rights. "

<sup>5</sup> DRIPs (Dividend Reinvestment Programs) are not considered distributions with options but cash distributions or securities distributions, depending on the investor's decision. In case of doubt, regional or local market bodies will determine which specific distribution with option types will not require an interim security (e.g. US DVOPs).

*Elective events*

Investors' agents will be responsible for relaying their clients' election instructions to the issuer's CSD or agent, or to their intermediary custodian agents as soon as possible and in structured ISO format, where applicable according to agreed service level agreements. The market deadline for receiving valid instructions at the issuer's CSD or agent, announced at event creation, will allow sufficient time for instructions to flow across the intermediary chain to the ultimate investor, and responses to flow back. No paper documentation should be required. The use of standard conventions and issuer sourced key information for election option identification will facilitate STP as well as reduce error rates, as currently options and meeting agendas are often numbered and/or categorized differently by different intermediaries, such as voting or non-voting items on meeting agendas.

The asset managers are part of the end-to-end process and should be linked into the intermediary chain using electronic messaging. The use of fax as a response tool should be phased out as soon as possible.

**Transaction Management, Unsettled Transactions**

CSDs should generate market claims on matched transactions to ensure that proceeds of distributions reach contractually entitled parties who have not received their full entitlement on record date. Transformations should be implemented by CSDs as a process in which pending transactions in a reorganization are replaced by new instructions. Buyer protection should be implemented where possible by CSDs on elective corporate actions, to ensure that buyers who have the right to elect (but do not hold securities because of pending transactions) receive the outturns of their choice.

There are markets, however, that follow a different model where the CSD is not involved in the entitlement distribution and/or the claims management process. Two notable examples are illustrated below:

**Japan**

In the Japanese book entry share environment, investors (who are account holders with financial institutions) have their share balance as of record date registered in the issuer's list of shareholders, and thus have full rights as shareholders or their agents. Issuers distribute all entitlements, such as dividends, directly to the shareholders (not through the CSD). After the list of shareholders as at close of business on record date is drawn, claiming dividends through the CSD is neither possible nor would it be efficient. Brokers that bought shares on a cum-dividend basis but do not receive the shares on or before record date, have to claim the dividend from their trading counterparty. For on-exchange trades, the claims process for dividends and other rights arising out of failed deliveries, is governed by rules set by the Japan Securities Clearing Corporation (i.e. the market's central counterparty).

**South Africa**

For On Market Transactions, claims are managed by the stock exchange. Off Market claims are managed at the individual investor level. The introduction of a 'Last Day to Trade' concept has greatly reduced market claims as investors have a clear indication of the last point to trade to qualify for an entitlement. Last Day to Trade is the day preceding the ex date.

### 3. Enabling Adherence to the Principles

Applying the general principles outlined in the previous chapter in daily business, calls for different steps to be addressed in sequence by the different constituencies that are involved in managing corporate actions: first the standards setting, second the implementation (ISO standards, common taxonomy) and third, the specific solutions to support straight-through processing (e.g. XBRL, screen-based interfaces).

**The objective should be to leverage across geographical locations the standard settings already achieved and to share best practices and principles on the largest scale possible. Priority should be to agree standards globally prior to looking at implementation matters.**

The major constituencies that are affected and involved are: Issuers and their agents; market infrastructure; intermediaries such as custodian banks; and institutional investors.

#### Issuers and their Agents

They "own" most of the information elements provided in a corporate action announcement. They should

- Provide clear, concise information in electronic form in adherence to ISO standards and agreed market practice not less than five to fifteen business days before a key processing date.
- Communicate updates not less than two business days before a key processing date, unless schedule relief is offered to accommodate processing of the change downstream to reach the investor constituency.

#### Market Infrastructures

They "own" certain additional information elements that are required for a complete corporate action announcement, such as an ex date ("owned" by the stock exchange) or a depository expiration date ("owned" by the CSD). They should

- Provide clear, concise information in electronic form in adherence to ISO standards and agreed market practice not later than one business day before a key processing date.
- Communicate updates within one business day of receipt.
- Pass election information back to issuer agents (or issuers directly, where this is market practice) when possible in electronic form and in adherence to ISO standards.
- 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.

#### Intermediaries

These are the parties that act on behalf of the investor, typically custodian agents. They should

- Provide clear, concise information in electronic form in adherence to ISO standards and agreed market practice not later than one business day after the announcement date.
- Communicate updates within one business day of receipt.
- Pass election information back to market infrastructures in electronic form in adherence to ISO standards and agreed market practice.

#### Institutional Investors

They should

- Effectively process the event on client books in a timely manner while maintaining the integrity of the event.

- Send election information back in electronic form in adherence to ISO standards and agreed market practice

The ability to adhere to the above operating standards is dependent on a number of conditions that first must be met:

### **A) Each market must have an agreed market practice**

The Securities Market Practice Group and National Market Practice Groups have a lead role in this process. Where not in place already, the market practice groups should include representatives from the three constituencies, to ensure that the defined market practice is fully supported by all stakeholders. Defining market practice has two different aspects for corporate actions and proxy voting:

#### Corporate Actions

- Definition of each corporate event; and
- Definition of how each event should be processed from issuer to investor covering the key areas of
  - Announcement
  - Elections
  - Payment
  - Transaction Management (market claims, transformation, buyer protection)

#### Proxy Voting

- Definition of each proxy voting event; and
- Definition of how each event should be processed from issuer to investor covering the key areas of
  - Meeting announcement
  - Voting instructions
  - Voting confirmation
  - Meeting results

Issuers, their agents and all 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. Meeting results communication should include outcomes by resolution, and include the outcome of the vote, the number of shares received for each voting option presented, and any anomalies related to the determination of the outcome such as special quorum requirements or specific shares invalidated at the meeting.

### **B) An electronic Issuer to Institutional Investor process must be in place**

This will be supported by the SMPG and NMPGs providing event templates that meet local and global market needs. Those templates must include the required information to be provided by the four constituencies. ISO should then adopt those templates to ensure effective messaging.

### **C) A form of compliance monitoring and measurement must be in place**

To expedite the adoption of, and ensure the ongoing adherence to the Principles, a monitoring and, if appropriate, enforcement mechanism is recommended. This would require first identifying, for each market, the appropriate body to oversee each of the four constituencies. Second, a monitoring methodology must be defined and third, those bodies must engage actively in an ongoing monitoring process.

## 4. Industry Groups and Initiatives of Global Significance

Most principles incorporated in this paper have been derived by synthesizing and building on the considerable body of work done on the subject by other industry organizations with a global, regional or functional focus. It is our objective to support their work on a global basis by highlighting best practices with broad applicability, and by encouraging their adoption across all stakeholder groups so as to reduce risks and costs in these complex processes. A – certainly incomplete – list of organizations and initiatives of global significance whose work was used as reference for this report includes the following:

Region	Organization	Acronym
Global	<p><b>International Organization for Standardization</b></p> <p><a href="http://www.iso.org">www.iso.org</a></p> <p>The ISO 20022 standard is a business model based standard process for the development of messages for the global financial services industry.</p>	<b>ISO</b>
Global	<p><b>Society for Worldwide Interbank Financial Telecommunication</b></p> <p><a href="http://www.swift.com">www.swift.com</a></p> <p>SWIFT has been heavily involved in the establishment and implementation of the ISO 20022 infrastructure, including messages to process corporate actions. SWIFT is the Registration Authority for the ISO 20022 standard.</p>	<b>SWIFT</b>
Global	<p><b>Securities Market Practice Group</b></p> <p><a href="http://www.smpg.info">www.smpg.info</a></p> <p>The Global Securities Market Practice Group (SMPG) facilitated by SWIFT has completed extensive work on ISO messaging standards and the Event Interpretation Grid (EIG), and is continuing to define key information elements, process flows, and templates. Industry-wide, the SMPG and its associated <b>National Market Practice Groups (NMPGs)</b> play a significant role in agreeing and documenting local market practice, and in defining how ISO messages should be used given the existing diversity in national market practice.</p>	<p><b>SMPG</b></p> <p><b>NMPG</b></p>
Global	<p><b>International Securities Market Advisory Group</b></p> <p>via <a href="http://www.clearstream.com">www.clearstream.com</a> or <a href="http://www.euroclear.com">www.euroclear.com</a></p> <p>ISMAG includes senior executives from the issuing, asset servicing and investor communities, is aiming to increase end-to-end processing efficiency and STP through the standardization of issuance practices, as well as information dissemination and processing of corporate actions and income distributions of international securities settled in the ICSDs. ISMAG has finalized an Operational Market Practice Book setting a baseline for the service delivery by all intermediaries in the asset servicing chain. It defines roles and responsibilities of the end-to-end intermediaries and the flows for timely dissemination. ISMAG is also defining information checklists and templates regarding the specific data required by intermediaries in the securities information documentation as well as in the event notification for predictable and unpredictable corporate action events.</p>	<b>ISMAG</b>

<b>Region</b>	<b>Organization</b>	<b>Acronym</b>
<b>Global</b>	<p><b>International Securities Association for Institutional Trade Communication</b></p> <p><a href="http://www.isitc.org">www.isitc.org</a></p> <p>Representing around 350 companies worldwide, ISITC develops proposed standards that are designed to enhance efficiency in trade processing and related communications.</p> <p>The U.S. Corporate Actions Working Group within ISITC examines business processes throughout the life cycle of a corporate action. Goal is to define standards for the US market and examine variances with global market practice, for the purpose of harmonizing corporate action messaging standards and move toward increasing automation and achieving greater STP throughout the industry.</p>	<b>ISITC</b>
<b>Global</b>	<p><b>Association of Global Custodians</b></p> <p><a href="http://www.theagc.com">www.theagc.com</a></p> <p>The AGC is a group of currently ten global custodian banks that are major providers of securities custody and trade settlement services to institutional investors worldwide. The association primarily seeks to address regulatory and market structure issues that are of common interest to global custody banks. In 2007, the AGC published a White Paper that discusses the need to automate and standardize corporate action messaging at every stage of event communications.</p>	<b>AGC</b>
<b>Global</b>	<p><b>International Securities Services Association</b></p> <p><a href="http://www.issanet.org">www.issanet.org</a></p> <p>ISSA provides leadership in the formulation and promotion of best practice to improve efficiency and risk management in the global asset servicing industry. ISSA fosters cooperation across borders and industry sectors in areas where joint initiatives benefit market infrastructure, institutional market participants and investors.</p>	<b>ISSA</b>
<b>Global</b>	<p><b>World Federation of Exchanges</b></p> <p><a href="http://www.world-exchanges.org">www.world-exchanges.org</a></p>	<b>WFE</b>
<b>Global</b>	<p><b>International Corporate Governance Network</b></p> <p><a href="http://www.icgn.org">www.icgn.org</a></p> <p>The International Corporate Governance Network (ICGN) is a global membership organisation of over 500 leaders in corporate governance in 50 countries. The ICGN's mission is to raise standards of corporate governance worldwide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through ICGN Committees.</p>	<b>ICGN</b>
<b>Africa &amp; Middle East</b>	<p><b>Africa &amp; Middle East Depositories Association</b></p> <p><a href="http://www.ameda.org">www.ameda.org</a></p>	<b>AMEDA</b>
<b>Americas</b>	<p><b>Americas Central Securities Depositories Association</b></p> <p><a href="http://www.acsda.org">www.acsda.org</a></p> <p>Currently (Early 2010) ACSDA is completing a survey of current corporate action rules and market practices across the Americas, and defining best practices.</p>	<b>ACSDA</b>

<b>Region</b>	<b>Organization</b>	<b>Acronym</b>
<b>Americas (U.S.)</b>	<p><b>Asset Managers Forum</b>  <a href="http://www.theassetmanager.com">www.theassetmanager.com</a></p> <p>The US Asset Managers Forum (AMF) and SIFMA have developed detailed recommendations on corporate actions handling from the viewpoint of institutional investors and their fund managers.</p>	<b>AMF</b>
<b>Americas (U.S.)</b>	<p><b>Securities Industry and Financial Markets Association</b>  <a href="http://www.sifma.org">www.sifma.org</a></p> <p>The US Asset Managers Forum (AMF) and SIFMA have developed detailed recommendations on corporate actions handling from the viewpoint of institutional investors and their fund managers.</p>	<b>SIFMA</b>
<b>Americas (U.S.)</b>	<p><b>Council of Institutional Investors</b>  <a href="http://www.cii.org">www.cii.org</a></p> <p>The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of pension funds and other employee benefit funds, foundations and endowments, and a leading voice for good corporate governance and strong shareowner rights. The Council's mission is to educate its members, policymakers and the public about corporate governance, shareowner rights and related investment issues, and to advocate on members' behalf.</p>	<b>CII</b>
<b>Asia Pacific</b>	<p><b>Asia Pacific CSD Group</b>  <a href="http://www.acgcsd.org">www.acgcsd.org</a></p> <p>ACG's objective is to facilitate the exchange of information and to promote mutual assistance among member securities depositories and clearing organizations in the Asia Pacific region. ACG is working to realize regional harmonization.</p>	<b>ACG</b>
<b>Asia Pacific</b>	<p><b>Asia Pacific Asset Servicing Working Group</b></p> <p>This group which is represented by major regional custodian banks and run by SWIFT, has started a region-wide discussion in this area. The group's objectives are to improve the communication between issuers and investors, help reduce the costs and risks associated with asset servicing in the Asia Pacific countries by promoting standardization and automation together with the establishment of market practices.</p>	<b>APASWG</b>
<b>Europe</b>	<p><b>Association for Financial Markets in Europe European Securities Services Forum</b>  <a href="http://www.afme.eu">www.afme.eu</a></p> <p>The European Securities Services Forum is the European post trading centre of competence of the Association for Financial Markets in Europe (AFME). Members are the major users of international securities markets. The ESSF acts as an agent for change in the European securities clearing, settlement and custody space to reduce risks and costs to market participants.</p>	<b>AFME/ESSF</b>
<b>Europe</b>	<p><b>Association of Eurasian Central Securities Depositories</b>  <a href="http://www.aecsd.com">www.aecsd.com</a></p>	<b>AECSD</b>



<b>Region</b>	<b>Organization</b>	<b>Acronym</b>
<b>Europe</b>	<p><b>Corporate Actions Joint Working Group</b></p> <p><u>Members include:</u></p> <ul style="list-style-type: none"> <li>- European Issuers</li> <li>- European Central Securities Depositories Association</li> <li>- European Association of Clearing Houses</li> <li>- Federation of European Securities Exchanges</li> <li>- European Banking Federation</li> <li>- European Association of Cooperative Banks</li> <li>- European Savings Banks Group</li> <li>- European Securities Services Forum</li> </ul> <p>The CAJWG has put together detailed recommendations on timelines, information flow, processing and transaction management for each category of corporate actions. Purpose is to harmonize processes and rules across Europe to remove Giovannini Barrier 3 (2009). CAJWG is a Group mandated by CESAME2 and chaired and coordinated by ESSF.</p>	<b>CAJWG</b>
<b>Europe</b>	<p><b>Joint Working Group 'General Meetings'</b></p> <p>A parallel working group drawn from the same associations as the CAJWG, looking into issues specifically related to General Meetings</p>	<b>JWGGM</b>
<b>Europe</b>	<p><b>The European Commission's Clearing &amp; Settlement Advisory and Monitoring Expert Group</b></p> <p>CESAME2's mandate is to facilitate a barrier-free Single European Market for clearing and settlement of securities transactions. It is composed of 30 high-level representatives of various, mainly private-sector, bodies involved in post trading, and observers from public authorities.</p>	<b>CESAME, CESAME2</b>
<b>Europe</b>	<p><b>European Fund and Asset Management Association / EFAMA Fund Processing Standardisation Group (FSPG)</b></p> <p><a href="http://www.efama.org">www.efama.org</a></p> <p>A working group within EFAMA is looking into ways and means to achieve efficiency gains in corporate actions processing for European mutual funds (UCITS funds). The principles and standards defined by the CAJWG for conventional securities serve as primary reference.</p>	<b>EFAMA</b>
<b>Europe</b>	<p><b>European Association of Central Counterparty Clearing Houses</b></p> <p><a href="http://www.eachorg.eu">www.eachorg.eu</a></p>	<b>EACH</b>
<b>Europe</b>	<p><b>European Association of Co-operative Banks</b></p> <p><a href="http://www.eurocoopbanks.coop">www.eurocoopbanks.coop</a></p>	<b>EACB</b>
<b>Europe</b>	<p><b>European Banking Federation</b></p> <p><a href="http://www.fbe.be">www.fbe.be</a></p>	<b>EBF / FBE</b>
<b>Europe</b>	<p><b>European Central Securities Depositories Association</b></p> <p><a href="http://www.ecsda.com">www.ecsda.com</a></p>	<b>ECSDA</b>
<b>Europe</b>	<p><b>European Issuers</b></p> <p><a href="http://www.europeanissuers.eu">www.europeanissuers.eu</a></p>	<b>European Issuers</b>
<b>Europe</b>	<p><b>European Savings Banks Group</b></p> <p><a href="http://www.savings-banks.com">www.savings-banks.com</a></p>	<b>ESBG</b>

Region	Organization	Acronym
Europe	<b>Federation of European Securities Exchanges</b> <a href="http://www.fese.org">www.fese.org</a>	<b>FESE</b>
Europe	<b>TARGET2 Securities Corporate Actions Sub-Group</b> <a href="http://www.ecb.int/paym/t2s/progress/subcorpact/html/index.en.html">http://www.ecb.int/paym/t2s/progress/subcorpact/html/index.en.html</a>	<b>CASG</b>

Many markets – typically in Western Europe but not limited to that region - have **Market Implementation Groups (MIGs)** whose composition is representative of their market structure. Once new regulation, standards, best practices etc. have been developed and agreed, the task of the MIG is to promote, coordinate and drive the implementation phase within their market. The MIGs can, but need not be identical with the National Market Practice Groups under the umbrella of SMPG.

Region	Initiative	Acronym
Global	<b>XBRL International</b> <a href="http://www.xbrl.org">www.xbrl.org</a> XBRL(eXtensible Business Reporting Language) is a technical, XML based language for the electronic communication of business and financial data. XBRL enables issuers to electronically tag data within the prospectus or other documents. The tags are machine readable and can be imported directly into ISO 20022 messages for onward straight-through processing.  DTCC, SWIFT and XBRL US, supported by ISO, have launched an initiative in the United States to adopt XBRL to event announcements for four specific event types related to Sponsored ADR Programs only – Cash Dividends, Stock Dividends, Special Dividends and Sale of Rights. This information is generated by issuers and their agents, so as to be able to produce ISO standard messaging directly from issuer announcements. The use of XBRL technology enables issuers and their agents to use electronic data tagging technology already coming into use in several jurisdictions for regulatory financial reporting purposes.  Similar pilots are planned or are under discussion in all continents.	<b>XBRL</b>
Americas (U.S.)	<b>i2i Group (Issuer to Investor)</b> <a href="http://www.xbrl.us/i2i/Pages/default.aspx">www.xbrl.us/i2i/Pages/default.aspx</a> See under XBRL International	<b>i2i Group</b>
Europe (Switzerland)	<b>CONNEXOR</b> <a href="http://www.connexor.ch">www.connexor.ch</a> SIX Group launched a web-based infrastructure ("Connexor") for event capturing and supporting an automated electronic information flow between issuers, market infrastructures, intermediaries and vendors (implementation in phases, from late 2009). The solution is being tested in the Swiss market, it is however not limited to any market. Connexor supports consistent straight through processing and enables issuers to manage their reference data cost-efficiently along the entire life cycle of a product.	<b>Connexor</b>

## Who is Working in Which Field?

The table below cannot claim to be complete. In most markets, individual organizations such as the stock exchange and the central depository are key parties involved in harmonizing, standardizing and automating corporate actions processing within their sphere of influence. Those are not listed individually. Acronyms: Refer to table on the preceding pages.

		Goal											
		Market Practice, Process Harmonization				Process Automation, STP				Enforcement			
		Issuer	Infra-structure	Inter-mediatary	Investor	Issuer	Infra-structure	Inter-mediatary	Investor	Issuer	Infrastru-cture	Inter-mediatary	Investor
<b>GLOBAL</b>		ISMAG	ISMAG SMPG ISSA	SMPG AGC ISSA	SMPG ISSA	ISMAG XBRL	ISMAG SMPG XBRL ISSA	SMPG AGC ISSA	SMPG ISSA		SMPG WFE		
<b>Americas</b>	<b>USA</b>	I2I Group	ISTIC SIFMA I2I Group	ISTIC SIFMA AGC	ISTIC SIFMA	I2I Group XBRL	ISTIC SIFMA I2I Group XBRL	ISTIC SIFMA AGC	ISTIC SIFMA	SEC NASDAQ	SEC NASDAQ	SEC NASDAQ	SEC NASDAQ
	<b>All</b>		ACSDA				ACSDA						
<b>Europe</b>	<b>EU</b>	CAJWG JWGGM European Issuers	CAJWG JWGGM ECSDA AFME/ ESSF	CAJWG JWGGM AFME/ ESSF	CAJWG JWGGM	CAJWG JWGGM	CAJWG JWGGM ISMAG ECSDA AFME/ ESSF	CAJWG JWGGM AFME/ ESSF	CAJWG JWGGM	MIGs	CESAME2 MIGs	CESAME2 MIGs	NPMGs
	<b>non-EU</b>	European Issuers	ECSDA AFME/ ESSF AECSDA	CAJWG JWGGM AFME/ ESSF	CAJWG JWGGM	CAJWG JWGGM CONNE- XOR	CAJWG JWGGM ECSDA AECSDA AFME/ ESSF CONNEXOR	CAJWG JWGGM AFME/ ESSF CONNEXOR	CAJWG JWGGM	MIGs	MIGs	MIGs	MIGs
<b>Asia-Pacific</b>	<b>All</b>		ACG	APASWG			ACG	APASWG					
<b>Middle East &amp; Africa</b>	<b>All</b>		AMEDA				AMEDA						

## 5. Assessment of the World Regions Against the Principles

The summaries below were compiled by the core working group, based on local market descriptions contributed by institutions representing more than 50 countries. The original information underlying these summaries can be found on [www.issanet.org](http://www.issanet.org). Updates to the regional summaries or to individual market profiles will be published on the same website if and when received.

***Section 5 was current in early 2010. Only selective updates have been made.***

### 5.1 Europe

#### Corporate Actions

The CAJWG Standards are a major achievement and the catalyst for all harmonization efforts in the region. Endorsed in October 2009 by six industry associations representing the entire value chain including the issuers, the CAJWG Standards are now the unanimously acknowledged best practice guideline for the coming years. Implementation is in progress on both a regional and national level across all European Union member markets and at least the Western European non-EU members as well. A detailed implementation plan and monitoring mechanism has been agreed by all stakeholder industry groups (see Annex F). Additional weight and momentum is provided by the fact that implementation is monitored by the EU Commission. For these reasons, all survey respondents feel that any global recommendations must not contradict the CAJWG Standards and if they did, the CAJWG Standards would supersede anything else in priority for the region.

The Eastern European markets outside of the European Union (e.g. Russia, Ukraine) operate in a less integrated environment. Typical market features include multiple depositories, lack of electronic communication systems linking the full intermediary chain, and the widespread circulation of physical securities. Nevertheless, long term development in the corporate actions area is likely to be guided by the CAJWG Standards, too.

Regional harmonization work has also started within the context of TARGET2 Securities with the T2S Corporate Actions subgroup focusing on market claims, transformations, and buyer protection, leveraging the CAJWG principles (see box below for more details).

Regulators are already involved through the CAJWG being monitored by CESAME2, and the T2S corporate action sub-group focusing on market claims and transformations being facilitated by the European Central Bank.

On the ICSD side, the ISMAG initiative has led to the definition of best practices for international securities primarily deposited in the ICSDs. Implementation is ongoing. The main challenge faced by ISMAG is to convince issuers, their lawyers and agents to adhere to ISMAG best practices and implement the required changes. ISMAG is currently defining a market enforcement framework in order to expedite implementation by issuers and their agents.

#### General Meeting and Proxy Voting

The EU Shareholder Rights Directive (SRD) requires EU domiciled issuers to inform all their shareholders within the EU about upcoming general meetings and their right to participate and vote. In a parallel effort to the corporate actions standards, the industry developed and endorsed best practice standards (2010) for the smooth information flow between issuers and shareholders in the forefront of a general meeting, where the shareholder is not registered in the company's share register. This is the case for bearer shares, for nominee registration and for cross-border holdings in omnibus accounts.

The Market Standards for General Meetings define, in addition to the Shareholder Rights Directive, the duties of the intermediary chain to support the information exchange between issuer and shareholder in order to increase shareholder participation in general meetings in a cross-border environment. The standards cover the following processes:

- Communication of the meeting notice from the issuer to the shareholder through the intermediary chain via electronic means
- Determination and communication of the shareholder's entitlement as of Record Date
- Support for shareholder in exercising their participation rights (access to the general meeting, casting of votes, proxy voting)

There is at the moment no agreed timeline for the final implementation of the Standards in Europe.

The future European Securities Law Directive (SLD, still in draft form as of June 2012) will prescribe a common framework within which issuers and all intermediaries along the investment chain must enable investors in the European Union to exercise all their rights attached to securities issued in the European Union, irrespective of national borders. This includes corporate action entitlements as well as access to general meetings and voting, direct or through proxies. Issuers may have to amend their Articles of Association to meet the requirements. In many cases, national company law will have to be changed as a precondition.

## Select Gaps in Europe

### Corporate Actions

The gaps most frequently mentioned include the lack of ISO-formatted data provided by the issuers, and the lack of agreed rules for market claims in some markets (e.g. Greece, Hungary). The lack of harmonized settlement cycles across markets is a major obstacle to regionally harmonized event creation. The T2S project has shown the importance of harmonizing here first, and only then look to corporate actions.

In Eastern Europe, the immediate challenges are decentralized infrastructures for asset servicing, lack of automation and facilities supporting straight-through-processing, and markets based on physical securities.

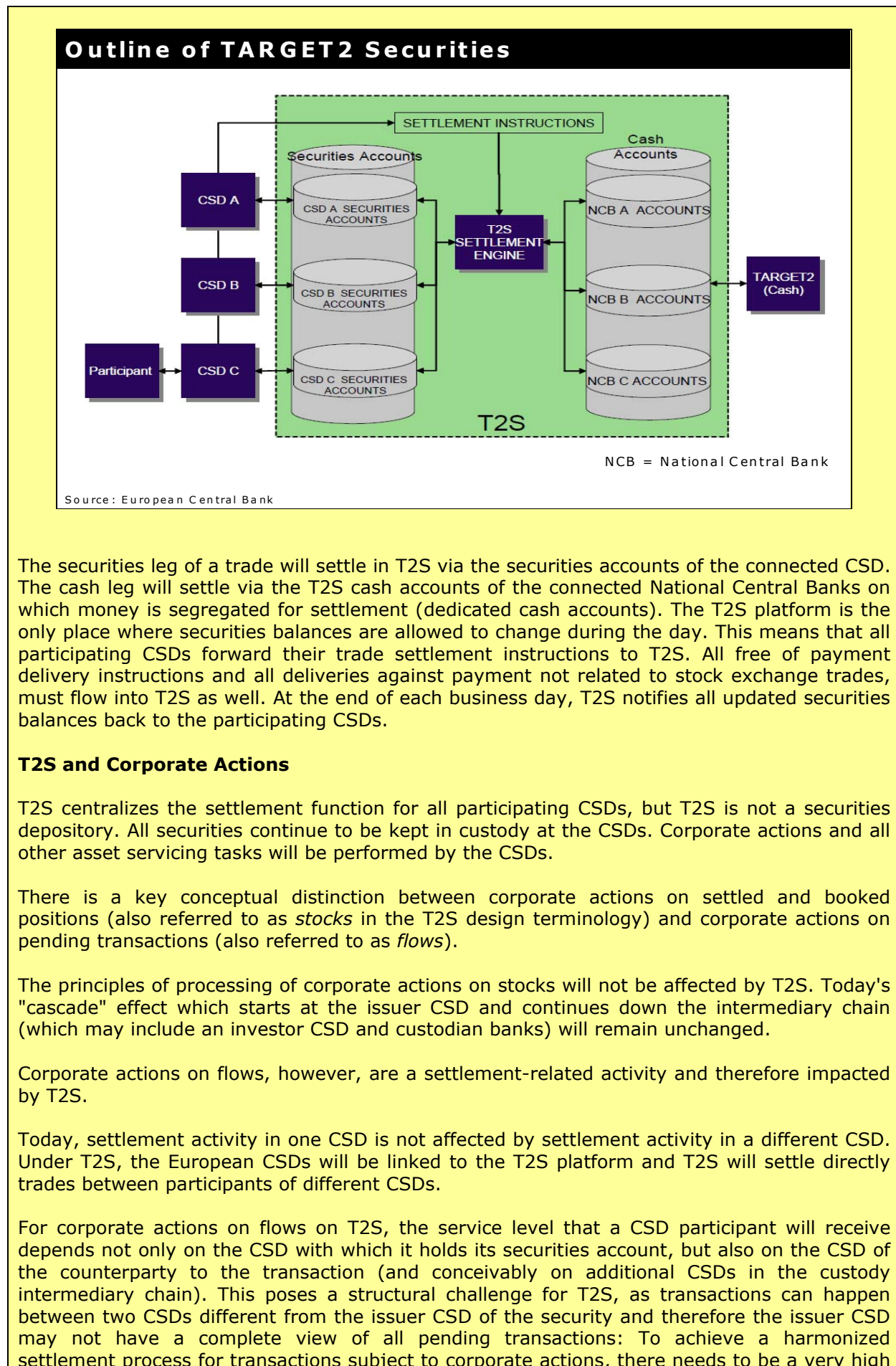
### General Meeting and Proxy Voting

The difficulty with the implementation of the General Meeting Standards lies in the diversity of the national rules and regulations on corporate governance and in the fact that cross-border notification of general meetings has not been market practice so far. In particular, the various definitions of "Record Date" across the EU member states, individual registration requirements to exercise voting rights and other local requirements are obstacles which should be tackled to release the full benefit of the standards.

## **How will TARGET2 Securities Impact Corporate Actions Processing?**

TARGET2 Securities (T2S), to be operated by the Eurosystem and scheduled for completion in 2014, is one of the major convergence initiatives in the European securities market. The Eurosystem comprises the European Central Bank and the National Central Banks of the Euro currency zone.

T2S is an extension of TARGET2, the Eurosystem's real-time, large value payment system. The T2S platform will be the common technical basis for securities settlement in Europe, for all Euro-denominated trades and for a number of additional currencies as well. All settlements are in a true DVP mode against central bank money. As with money transfers within the Euro zone, T2S aims at eliminating the distinction between processing intra-CSD settlements and cross-CSD settlements. A very high level outline of T2S is shown below.



The securities leg of a trade will settle in T2S via the securities accounts of the connected CSD. The cash leg will settle via the T2S cash accounts of the connected National Central Banks on which money is segregated for settlement (dedicated cash accounts). The T2S platform is the only place where securities balances are allowed to change during the day. This means that all participating CSDs forward their trade settlement instructions to T2S. All free of payment delivery instructions and all deliveries against payment not related to stock exchange trades, must flow into T2S as well. At the end of each business day, T2S notifies all updated securities balances back to the participating CSDs.

### T2S and Corporate Actions

T2S centralizes the settlement function for all participating CSDs, but T2S is not a securities depository. All securities continue to be kept in custody at the CSDs. Corporate actions and all other asset servicing tasks will be performed by the CSDs.

There is a key conceptual distinction between corporate actions on settled and booked positions (also referred to as *stocks* in the T2S design terminology) and corporate actions on pending transactions (also referred to as *flows*).

The principles of processing of corporate actions on stocks will not be affected by T2S. Today's "cascade" effect which starts at the issuer CSD and continues down the intermediary chain (which may include an investor CSD and custodian banks) will remain unchanged.

Corporate actions on flows, however, are a settlement-related activity and therefore impacted by T2S.

Today, settlement activity in one CSD is not affected by settlement activity in a different CSD. Under T2S, the European CSDs will be linked to the T2S platform and T2S will settle directly trades between participants of different CSDs.

For corporate actions on flows on T2S, the service level that a CSD participant will receive depends not only on the CSD with which it holds its securities account, but also on the CSD of the counterparty to the transaction (and conceivably on additional CSDs in the custody intermediary chain). This poses a structural challenge for T2S, as transactions can happen between two CSDs different from the issuer CSD of the security and therefore the issuer CSD may not have a complete view of all pending transactions: To achieve a harmonized settlement process for transactions subject to corporate actions, there needs to be a very high

degree of harmonization in CSD processing and service levels.

### **Processing Corporate Actions on Flows for Cross-CSD Transactions in T2S**

Corporate actions on flows can be divided into three basic activities:

1. Market Claims (on distributions)
2. Transformations (on reorganizations)
3. Buyer Protection (on elective corporate actions)

The differences between national rules relating to the treatment of corporate actions have been identified in Europe by the Giovannini Group (and other industry bodies) as a critical obstacle to an integrated post-trade environment. The EU Corporate Actions Joint Working Group (CAJWG) defined a set of minimum standards on how the individual European CSDs should process those activities, including the three mentioned above. Within the T2S project, a dedicated working group (Corporate Actions Sub-Group, CASG) clarified how the participating CSDs – and, by inference, their participants and other intermediaries – should manage this process on cross-CSD transactions in T2S. Proposed standards were completed at the end of 2009. They are coordinated with the CAJWG, the Joint Working Group on General Meetings, and the harmonization work driven by Euroclear in the markets whose CSDs belong to the Euroclear Group. The CASG also defined user requirements that should be adopted as soon as feasible in the T2S system design in order to handle corporate actions on flows.

The expectation is that all T2S participating CSDs and their users will abide by these standards for all activity on T2S, and from the first day of such activity on T2S. It is also hoped that all European CSDs will apply the same standards for non-T2S settlements as well, so that a single harmonized European process is achieved.

## **5.2 Middle East and Africa**

There are no known cross-border corporate actions harmonization projects or coordinated industry initiatives in the region encompassing multiple markets. In a cross-border development beyond the scope of corporate actions, the CSDs of South Africa and Egypt are the first non-European members having recently joined the LinkUp Markets group of central depositories.

Systems development and the adoption of ISO standards are commonly agreed goals, but there are wide variations in the levels of development between individual markets. Electronic STP messaging is generally at a low level (exception: South Africa). Where it exists, proprietary communication systems between market infrastructure and their participants are rather common. Some markets use ISO messages to distribute cash entitlements but not yet to service other corporate action types. However, cash entitlements are often distributed by check rather than wire transfer. Corporate action announcements are generally published on issuers' and/or exchanges' websites, often in local language only (i.e. without an official English version). Local custodians generally use ISO standards in their client side communication, but not necessarily with local market infrastructure.

Among those markets that responded to the survey, South Africa stands out in several respects: It is clearly the most advanced in the region in terms of process automation, and it uses globally unique solutions to handle market claims and investor protection issues. An example is the Finalisation Date: the date on which the event and its details become unconditional in all respects and irrevocable, i.e. after which no further changes to any of the pertinent details can be made by the issuer and the event can only be cancelled in certain circumstances. Another is the Last Day to Trade, which is the day preceding ex-date. The introduction of the Last Day to Trade has greatly reduced market claims as investors have a clear indication of the last point to trade to qualify for an entitlement.



## **Select Gaps in the Middle East and Africa**

Not all markets have yet adopted the series of key dates (ex, record, pay) that have become an accepted global standard, nor a systematic process to detect and handle market claims. Systems development and automation based on ISO standards is generally low at all stages in the processing chain, except for local custodians communicating with overseas institutional clients.

### **5.3 Asia**

In Asia, stock exchanges and central securities depositories are increasingly focused on corporate action initiatives, with the objective of seeking accurate and efficient ways of distributing corporate action information and processing corporate actions. Compared to Europe and the Americas, the role of stock exchanges in this region is generally greater than that of the central securities depositories. It is recognized in some of the markets in the region that the active involvement of governments and regulators in the corporate action initiatives arena is essential to achieve the goal of STP for corporate actions.

In addition, the Asia Pacific Asset Servicing Working Group which includes major regional custodian banks and SWIFT, has started a region-wide discussion in this area. The group's objectives are to improve the communication between issuers and investors, to help reduce the costs and risks associated with asset servicing in the Asia Pacific countries by promoting standardization and automation together with the establishment of market practices.

Development of electronic messaging based on ISO standards in the Asian region has been gradual. Some of the markets have implemented or established a concrete plan for the distribution of corporate action information in ISO standards. However, most of the markets are at a very preliminary stage of such discussions.

For corporate action processing for domestic clients, the involvement of intermediaries (e.g. custodian banks) is limited in certain cases due to the characteristics of the securities holding system in the Asian region. In the direct holding system (i.e. securities are held in an account which is opened by and under the name of a security owner directly within a central securities depository system) no intermediaries are involved in the process. The same is true in the indirect holding system where the security owners' benefit such as cash dividend and bonus issue etc. is distributed to owners directly by issuers (i.e. securities are held indirectly but the owner details will be passed to the issuers by the central securities depository).

However, for non-resident investors the registration is generally made in the name of a nominee and therefore corporate action processing is conducted by intermediaries. In this regard, it is widely recognized that the harmonization of event creation, communication and processing is extremely important.

As initiatives of integration of the capital markets evolve in Asia, corporate action harmonization is expected to be discussed further.

### **Select Gaps in Asia**

It is recognized that the development of the straight through processing of corporate actions in the Asian region in comparison with the "Global Principles" stated in this report is moderate. For instance, the implementation of unique identifiers and process harmonization across the region has not been achieved. However, it is expected that growing cross border investments in the region will accelerate the discussion in the area of harmonization of the corporate action processing within globally recognized standards.

### **5.4 North America**

The U.S. market is moving towards ISO messaging, as DTCC (which includes the U.S. CSD, DTC) evolves from proprietary formats to ISO 20022 starting from early 2011. At the same



time, DTCC, SWIFT, XBRL U.S. and the U.S. market are working towards bringing issuers into the STP chain through the 'issuer to investor: corporate actions' initiative. This will be a major evolutionary initiative that may involve regulators.

The Canadian CSD, CDS, currently gathers information from issuers and transfer agents, scrubs it and disseminates in formats which include ISO 15022. CDS participates in the U.S. initiative to develop an XBRL taxonomy compliant with ISO 20022 standards, and plans to work with transfer agents in future to facilitate direct electronic delivery of data from the source.

The U.S. has a good foundation in defining the content within messages although there is still work to be done in harmonizing the content/usage across all U.S. security types, event types and parties. It is hoped that planning for XBRL adoption will accelerate the engagement of issuers and their agents in the definition of standards by the U.S. national market practice group (NMPG), ISITC. DTCC's corporate action re-engineering initiative will help further consolidate the required content under a single set of templates. CDS chairs Canada's NMPG for corporate actions and actively pursues efficiencies through improved STP. In both markets, timeliness of announcements is not a major issue.

In regards to the creation of a unique event ID, the XBRL taxonomy will introduce to issuers the concept of a creating a reference ID to an event to be associated to all announcements related to a single event through its lifecycle. DTCC will provide an event ID to DTC participants for DTC-eligible securities as part of the corporate action re-engineering initiative.

Harmonization issues exist,

- where securities are settled in different markets (e.g. U.S. and Canada), all parties need to ensure alignment of local NMPGs.
- where securities are multi listed i.e. traded/settled in different markets the same applies. The U.S. NMPG (ISITC) supports the Event Interpretation Grid (EIG) as developed by the SMPG for general rules to assist in global harmonization. Local rules, which may be more detailed than the EIG, should be housed within the appropriate bodies and made publicly available.

Through continuous net settlement (CNS) the U.S. market operates a centralized process that in effect ensures investors are protected by the automatic adjustments on pay date. In addition, other mechanisms are in place to protect investors rights; for example, the due bill process for dividend type of events and the liability hub to net positions for elections on voluntary events. However, not all events are covered by the above processes. DTCC is working to close any gaps.

CDS generates market claims on matched transactions, and offers buyer protection on voluntary corporate actions through a web-based letter of liability service.

### **Select Gaps in North America**

1. Greater support and involvement in market practice by all parties impacted by corporate actions.
2. Greater coordination by all relevant industry organizations.
3. Further develop the ISO 20022 data model.
4. More involvement with transfer/payment agents and stock exchanges.
5. Further analysis on other manual areas, e.g. between counterparties to close out a corporate action event e.g. swapping charges that occur in the Due Bill Process – expand on the obligation warehouse.
6. The treatment of multiple-listed securities where different trading rules (affecting ex-date) apply in different markets.

## 5.5 Mexico, Caribbean, Central and South America

In the last five years ACSDA has been very active regarding the corporate actions process. In 2006, a Corporate Action Working Group was formed to examine the weaknesses and strengths of the corporate actions process in the Americas. In 2007, the Working Group developed a matrix which identified the characteristics of each ACSDA member's service offering and produced an overview of the region. It is recognized that, in this region where some of the world's largest but also the smallest markets and CSDs operate, the standardization of business processes requires great efforts; and priorities and investment budgets differ greatly. However, progress has been achieved in the recent years. ACSDA's participation in international forums related to corporate actions processing is growing stronger and there has been a shift from acting as spectators in the beginning to now becoming an influential force.

Considering the importance that corporate actions have taken globally, ACSDA has raised significant awareness among its members of the challenges of standardization and harmonization, being key requirements to attract foreign investment into the region.

The larger central depositories have committed to make their know-how available to support the smaller CSDs to implement cutting-edge technology and processes.

Among the main achievements of the region, many ACSDA members have become participants in the Securities Market Practice Group (SMPG) which focuses on corporate action best practices. The number of members continues to grow and some are even in the process of establishing national market practice groups.

Brazil and Mexico have moved forward towards the adoption of ISO standards. In Brazil, the capital market infrastructure operator (BM&FBOVESPA) has developed a system for corporate actions called RADAR.

Mexico's Central Securities Depository (S.D. Indeval) has created a corporate actions platform that is being automated with the adoption of the existing standards in ISO 15022. The platform is being prepared for the future adoption of ISO 20022. Information relating to shareholder meetings can be input by the issuer into Indeval's system, from where it is disseminated to the CSD participants.

Significant progress was made in 2011/12 in the area of money market and fixed income instruments, where the issuer (or its agent) can now input directly at source their information relating to interest calculation and payment, via a web-based interface or through ISO 15022 compliant messages (MT564 and MT566).

There is a need for the region to continue growing towards the principles identified in this document. This derives from:

- The fact that an increasing number of markets in the Americas are using ISO 15022 as their message standards for transactions as well as for corporate actions. They have designed their systems in order to be able to migrate towards ISO 20022 in a smooth way.
- They are beginning to use XBRL in corporate actions, in order to facilitate recordkeeping and communication.
- The relationship among the industry groups involved in corporate action processing is changing. Increasingly issuers, central banks, exchanges, regulators and others cooperate to standardize and harmonize local information with the long term goal of converging to a single process globally. An example is the use of a single event identifier to facilitate centralized information collecting and distributing all events' schedules, calendars, rates, percentages, timings for key dates.
- Many ACSDA members responded to the ISSA Corporate Actions working group survey, demonstrating their interest in participating actively in the development of global best practices.

## **Select Gaps in Mexico, Caribbean, Central and South America**

There is still work to do, such as looking for a greater participation of markets in the improvement of STP, increasing efforts to strengthen relations between the different local players involved in corporate actions processing, and in the area of customer service. There are also gaps to fill in those markets where the central depository is not the single entity holding securities and therefore not the sole payor of cash distributions and other entitlements.

## **6. Implementation Monitoring Process**

Implementation monitoring with regard to the principles is a necessary element to achieve progress. It is however a long-term undertaking and outside the scope of this project phase. The ISSA working group offers one possible approach for monitoring and presenting status updates on a global, regional or individual market level (see next page).

As a first step, the organizations working in the different markets, world regions or globally with the different constituencies should be identified. Those will be the bodies defining market-wide change or improvement projects. The table on page 18 provides initial guidance without claiming to be comprehensive.

As a further precondition, an implementation strategy, followed by a more granular detailed tactical implementation plan should be agreed in each market for each principle. Meaningful progress monitoring should then report on the status of the detailed steps.

For Europe, where the harmonization standards have been defined and agreed, a detailed implementation and progress monitoring process on both a European and national market level has been defined. Implementation is in progress and is monitored by CESAME2 based on a European Commission mandate. Regulatory involvement and pressure is thus part of the process. Annex F contains the relevant document, issued jointly by six leading European industry associations.

## A Possible Approach for Implementation and Status Monitoring

The table below is purely for illustration purposes. Its exact contents would have to be tailored to the specific monitoring task.

Goal	Strategy		Tactic		Regional Activity				
	#	Detail	#	Detail	Global	Americas	Europe	AsiaPac	Africa
1: Create an Issuer to Investor Electronic process	1	S/NMPG to publically provide clear/concise event templates that meet Local and Global Market needs	1	Create Event Templates with data element ownership					
			2	Develop process by which public access is permitted for all templates					
			3	Ensure publicly announced Unique ID is provided by respective market body(ies)					
	2	Event templates should include Mandatory data to be provided by the 3 constituencies: Issuer and Infrastructure, Intermediaries and Investors.	1	Define Data Elements as Mandatory, Conditional, Optional					
			2	Validate templates with all 3 constituencies					
			3	Gain public support/adoption					
	3	ISO to adopt S/NMPG templates to ensure effective messaging	1	Work with appropriate ISO bodies to enhance ISO 20022 business model standards					
			2	Work with appropriate ISO bodies to enhance ISO 20022 message standards					
			3	Work with appropriate ISO bodies to permit variants as needed/required					
2: Defined Market Practice	1	General Corporate action definitions	1	Define Event Types / Groups					
			2	Develop end-to-end process maps for each event group					
			3	Develop data element data dictionary for use in each processing step					
	2	Define how Announcements are processed	1	Define the Actors and Roles involved					
			2	Define timelines, content and process for announcement dissemination by party					
			3	Ensure public access to key information including event ID					
	3	Define how Elections are processed	1	Define the Actors and Roles involved					
			2	Define and standardize deadline dates					
			3	Define unique option characteristics					
	4	Define how Payments are processed	1	Define the Actors and Roles involved					
			2	All Payments should be book entry					
			3	Reversals should be announced beforehand					
	5	Define how Buyer Protection /Claims is processed	1	Define the Actors and Roles involved					
			2	Define each type by market: Claim, Transformation and Buyer protection					
			3	Agree of practices for each type					
	6	Define how Tax is processed	1	Define the Actors and Roles involved					
			2	Agree practices for each type of tax: Withholding, Cost Basis etc					
			3						
2: Active Market Enforcement	1	Identify, by market, (Local, Regional and Global) the appropriate bodies	1	Identify appropriate market bodies					
			2	Develop strategy for engagement					
			3						
	2	Engage the appropriate bodies for support	1	Engage appropriate market bodies					
			2	Provide clearer guidelines and market expectations					
			3	Help define rule changes that meet market requirements					

**Key**  
 Complete   
 Partial   
 Not Started 

## **7. Key Open Issues**

### **7.1 Issuer-to-Investor Structured Electronic Communication**

Clearly the biggest hurdle in all markets, this requires concerted effort across the industry chain, information sharing across regions, and the active involvement of international industry groups including the issuers. Regulators may need to be engaged as well. The primary challenges are to simplify the process of creating structured information for issuers and their agents, and to provide incentives or other compelling reasons for following such a process.

There are currently four major initiatives either in the planning stage or in implementation: the XBRL/ISO 20022 initiative being piloted in the US and discussed in Canada and Japan, the ISMAG initiative for international fixed-income securities settled in the ICSDs, the SIX Group initiative in Switzerland and the ISO 20022 messages for interaction related to corporate actions between issuers' agents and the Euroclear CSDs.

It should be noted that the structuring of such information and its communication from issuers and their agents should not be limited to corporate events, but initial reference data provided at the time of issuance of securities. The work being done by ISMAG on terms and conditions of international fixed-income securities is an interesting example.

### **7.2 Global Unique Event Reference Numbering**

There are three sub-issues. One is simply having an event reference number unique to each issuer's home market, which a number of markets do not yet have. The second is agreeing on a standard way to identify events for the same underlying securities listed or trading in multiple markets (for instance by using the ISIN plus MIC to identify the security and market, as well as the event identifier). The third is to follow a consistent global convention in event numbering, if at all possible.

The first two are critical. Global SMPG, NMPGs and CSDs should drive this working closely with issuer groups and exchanges.

### **7.3 Unique Event Option Identification**

Linked to both 7.1 and 7.2 but not dependent on either, this is to ensure that option reference identifiers on all events with options are reported consistently across the chain by all intermediaries to investors and ultimately to issuers.

Again, this should be driven by SMPG, NMPGs and CSDs working with issuer groups and exchanges.

### **7.4 Pending Transaction Management**

Consistent rules for handling pending transactions so as to ensure that all parties receive the benefits they are entitled to, and for handling transformations, are in place in most markets in Europe and North America and some elsewhere, but are an urgent priority in others.

In that context, the harmonization of the settlement cycle is important for the efficient management of all corporate action events including market claims. That point is being discussed in Europe in the frame of T2S.

### **7.5 Key Date Standards and Event Processing Rules**

These are areas where markets exhibit a good deal of variation. Agreement within markets on realistic key date standards and event rules, and their publication, are standard in Western Europe, North America, selected countries in the Asia-Pacific and Latin American regions, and

South Africa. Regional harmonization is in progress in Europe. It is currently not a critical need elsewhere. Regional harmonization initiatives are however important drivers to expedite progress on a global level.

In the area of event processing, rules should incorporate standard terms, the use of book-entry movements for both securities and cash, the use of structured ISO messaging between CSDs and other intermediaries, and the ability to submit elections electronically. Entitled positions to consider should be settled (as opposed to traded) positions.

## 8. Next Steps

CSDs or exchanges working with National Market Practice Groups (NMPGs) and SWIFT are probably the parties best placed to effect change, particularly if they ensure the inclusion of issuers and their agents in change design and management. Regional and global industry organizations have an important role to play in ensuring the sharing of information and standards, and where appropriate, in coordinating the setting and implementation of regional or global standards.

In the proxy voting area, dedicated solutions to facilitate cross-border voting processes for institutional investors and market intermediaries are available. The European Market Standards for General Meetings are an example of regional action which could be used as guidance for other regions, eventually defining global market practice.

It is ISSA's intention to engage in an active dialogue with the various relevant industry groups and other stakeholders. The goal is to agree on a concerted way forward towards global implementation over time. To that end, agreement should be reached among the stakeholders on the appropriate party to take a lead role for specific projects. The crucial areas have been identified in this report. Where called upon, ISSA is willing to offer its help as a coordinator and facilitator.

To date, contributors from more than fifty markets have provided insight into the corporate action processes, and the relevant operators in their respective market. They also indicated their development projects or priorities in this area in the near and midterm future. The assessment of the different world regions included earlier in this report is based on those contributions. However, the individual market responses to the ISSA survey contain a wealth of additional and sometimes very detailed information. Interested parties can access all original contributions (as of 2010) on ISSA's website [www.issanet.org](http://www.issanet.org). Additional or updated contributions are always welcome and will be published in the same repository.

All ISSA members and all interested third parties are encouraged to help promoting the issues raised in this report to ensure its long term impact and improve this field within our industry.

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## 9. Glossary of Key Terms Used in this Report

The definitions in this glossary are for the purpose of understanding the corporate actions standards in the context of this paper. They are not meant to be definitions in a legally binding sense. Where available, the definitions agreed by the member associations of the Corporate Actions Joint Working Group are adopted.

<b>Book Entry</b>	Accounting of securities and other financial assets in dematerialized or immobilized form.
<b>Buyer Protection</b>	Process whereby a buyer who has yet to receive the underlying securities of an elective corporate action, instructs the seller in order to receive the outturn of his choice.
<b>Central Counterparty (CCP)</b>	An entity that interposes itself between the two parties to a trade, becoming the buyer to every seller and the seller to every buyer.
<b>Class Action</b>	Lawsuit from (ex)shareholders against the issuing company because they claim that certain of their rights have been violated.
<b>Corporate Action</b>	Action initiated upon a security by the issuer or an offeror.
<b>Corporate Action Agent</b>	Agent appointed by the issuer to act on its behalf in relation to corporate actions.
<b>CSD</b>	Central Securities Depository: An entity that holds and administrates securities and enables securities transactions to be processed by book entry. Securities can be held in a physical (but immobilized) or dematerialized form (i.e. so that they exist only as electronic records). In addition to the safekeeping and administration of securities, a CSD may incorporate clearing and settlement functions.
<b>Dematerialization</b>	The maintenance of records of ownership of securities in a database rather than by physical paper certificates.
<b>Elective Corporate Action</b>	Distribution with Options, Mandatory Reorganisation with Options or Voluntary Reorganisation
<b>End Investor</b>	Physical or legal person who holds the security for its own account.
<b>Fractions</b>	The number of underlying securities remaining after the calculation of the entitlement to the proceeds of a corporate action. or The decimal part of the balance of outturn securities resulting from the calculation of the proceeds of a corporate action.
<b>Giovannini Barriers</b>	The Giovannini Group is a group of financial market experts who advise the European Commission on financial market issues. In 2001, the group identified 15 specific barriers that prevent efficient EU cross-border clearing and settlement. They describe technical, legal and fiscal obstacles, which make it difficult for service providers to extend their reach beyond their home country.

<b>ICSD</b>	International Central Securities Depository: Central securities depository that settles trades in international securities and in various domestic securities usually through direct or indirect (i.e. through local agents) links to local CSDs.
<b>Immobilization</b>	The maintenance in a central depository of paper securities to enable book entry transfers between the depository participants.
<b>Interim Security</b>	Short term transferable operational instrument, issued for processing purposes only, which is not representative of the issuer's capital.
<b>Intermediary</b>	Financial institution that provides and maintains securities accounts.
<b>Issuer</b>	The issuer of an underlying security including the agent mandated by the issuer for corporate actions purposes.
<b>Issuer CSD vs Investor CSD</b>	<p>Issuer CSD: CSD with whom the issuer has deposited and maintains its primary securities issuance by book-entry.</p> <p>Investor CSD: CSD that holds securities with another CSD or with an intermediary.</p> <p>Issuer CSD and Investor CSD can be one and the same entity, but need not be. The term Issuer CSD puts the CSD's issuer service into the focus, whereas the term Investor CSD focuses on the CSD's investor services.</p>
<b>Issuing and Paying Agent</b>	Agent appointed by the issuer to issue securities to the market, receive corresponding payments, and act as paying agent on behalf of the issuer.
<b>ISIN</b>	International Securities Identification Number, as agreed in ISO Standard 6166.
<b>ISO</b>	International Organization for Standardization
<b>Key Dates</b>	<p><b>Ex-, Record- and Payment date</b></p> <p><i>Ex Date:</i> Date from which the underlying security is traded without the benefit / right attached to it.</p> <p><i>Record Date:</i> Date on which settled positions are registered in the books of the issuer CSD at close of business to determine the entitlement to the proceeds of a corporate action or to determine voting rights.</p> <p><i>Payment Date:</i> Date on which the payment is due.</p> <p><b>Start of Election Period:</b> Start of the election period determined by the issuer (resp. offeror) is the first date and time after the announcement of the issuer (resp. offeror) by which the investor can instruct (directly or indirectly via intermediary) about his election on the assets on distributions with options, mandatory reorganizations with options and voluntary reorganizations.</p>



<b>Key Dates</b> (continued)	<p><b>Last Trading Date:</b> Last date to trade the underlying security in the old ISIN of a mandatory reorganization. The Last Trading Date should precede the record date by at least one settlement cycle.</p> <p>In South Africa, the <b>Last Day to Trade</b> is a key date, i.e. the day preceding Ex-date.</p> <p><b>Guaranteed Participation Date:</b> Last date to trade the underlying security with the right attached to elect in a voluntary reorganization.</p> <p><b>Market Deadline:</b> Last Date and time by which the issuer (I)CSD receives election instructions and/or assets which must be transferred to the issuer to validate elections.</p>
<b>Lead Manager</b>	Entity appointed by the issuer to structure and lead the placement of an issue.
<b>Legal Counsel</b>	<p>Law firm appointed as the legal advisor by an entity primarily involved in the corporate actions process, often the issuer, offeror, or lead manager.</p> <p>Entity appointed by the issuer to structure and lead the placement of an issue.</p>
<b>Market Claim</b>	<p>Process to reallocate the proceeds of a distribution to the contractually entitled party.</p> <p>Law firm appointed as the legal advisor by an entity primarily involved in the corporate actions process, often the issuer, offeror, or lead manager.</p>
<b>Offeror</b>	<p>Party other than the issuer (including its agents) offering a voluntary reorganization.</p> <p>Process to reallocate the proceeds of a distribution to the contractually entitled party.</p>
<b>Payment</b>	<p>Delivery of the proceeds of a corporate action (cash, securities, rights).</p> <p>Party other than the issuer (including its agents) offering a voluntary reorganization.</p>
<b>Proxy Voting</b>	<p>Method to exercise the voting right(s) of an investor in shares, bonds and similar instruments through a third party, based on a legally valid authorization and in conformity with the investor's instructions.</p> <p>Delivery of the proceeds of a corporate action (cash, securities, rights).</p>
<b>Registrar</b>	<p>Entity appointed by the issuer to maintain the register of holders where the securities are in registered form.</p> <p>Method to exercise the voting right(s) of an investor in shares, bonds and similar instruments through a third party, based on a legally valid authorization and in conformity with the investor's instructions.</p>

<b>SMPG EIG</b>	<p>Securities Market Practice Group, Event Interpretation Grid.</p> <p>For corporate actions, the SMPG created the Event Interpretation Grid (EIG) to clarify the use of indicators and options across more than 60 event types defined in ISO 15022. The EIG identifies a global grid of preferred practice and also deals with exceptions for 19 markets, as defined by contributing national market practice groups. Overall, the EIG brings clarity on how to populate the ISO 15022 corporate actions messages, simplifying their implementation and minimizing interpretation issues for announcements.</p> <p>Entity appointed by the issuer to maintain the register of holders where the securities are in registered form.</p>
<b>Transformation</b>	<p>Process by which pending transactions, on or after record date / market deadline, are cancelled and replaced by new transactions in accordance with the terms of the reorganization.</p> <p>Securities Market Practice Group, Event Interpretation Grid.</p> <p>For corporate actions, the SMPG created the Event Interpretation Grid (EIG) to clarify the use of indicators and options across more than 60 event types defined in ISO 15022. The EIG identifies a global grid of preferred practice and also deals with exceptions for 19 markets, as defined by contributing national market practice groups. Overall, the EIG brings clarity on how to populate the ISO 15022 corporate actions messages, simplifying their implementation and minimizing interpretation issues for announcements.</p>
<b>Underlying Security</b>	<p>Security that is the subject of a corporate action.</p> <p>Process by which pending transactions, on or after record date / market deadline, are cancelled and replaced by new transactions in accordance with the terms of the reorganization.</p>
<b>Voluntary Reorganization</b>	<p>A reorganization in which participation is optional for the holder of the underlying security.</p>

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