

PRIVATE SECTOR INITIATIVES TO REMOVE BARRIER 3 ON CORPORATE ACTIONS

**MARKET STANDARDS
ON
CORPORATE ACTIONS & GENERAL MEETINGS**

11th ANNUAL CLEARING AND SETTLEMENT CONFERENCE

Marcus Evans - London

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Dorien FRANSENS

Secretary General

Agenda

- About European Issuers
- Challenges of cross-border and intermediated shareholding
- Market standards on general meetings
- Market standards on corporate actions

About EuropeanIssuers

- ***Our history***
Merger of EALIC (° 2002) and UNIQUE (°2003) in March 2008
- ***Our scope***
Interests of companies, across all sectors, listed on a European market
- ***Our focus***
Regulatory framework issuers have to comply with because they are listed
- ***Our goal***
strive for well functioning and integrated liquid markets
- ***Our constituency***
National associations and companies from 15 countries:
Austria, Belgium, Bulgaria, Cyprus, Finland, France, Germany, Greece, Italy, Netherlands, Poland, Portugal, Spain, Switzerland and the UK

Our markets count some **9,200 listed companies with a combined market value of some € 8,500 billion.**

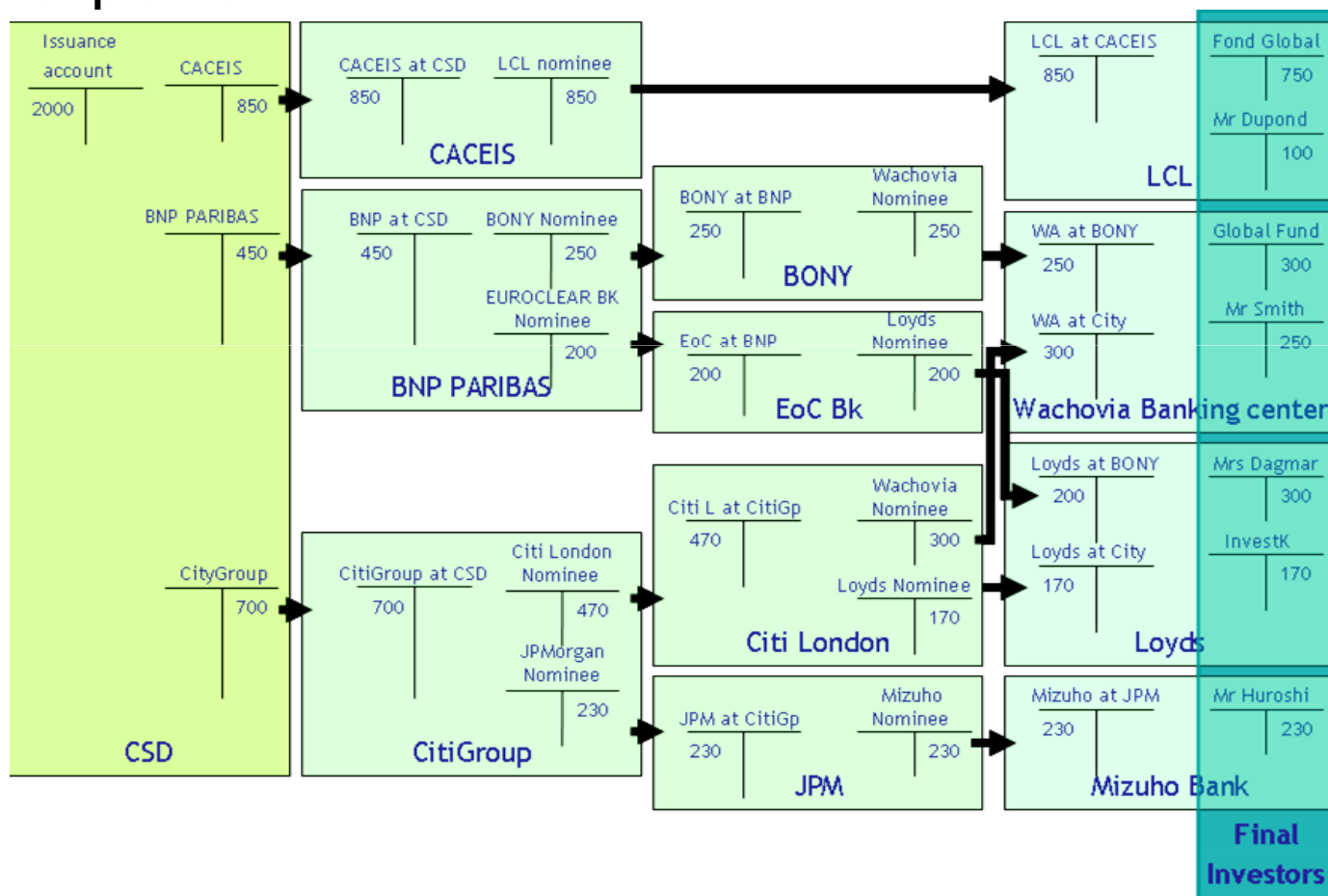
Challenges of today's shareholding

The issuer – shareholder relation must face the challenges of

- a contemporary **shareholding**:
intermediated and cross-border
- a contemporary **shareholder**:
multiple types of shareholders

A cross-border and intermediated environment

For experts:



A cross-border and intermediated environment

For beginners:



Chain of intermediaries between shareholder and issuer: a *de facto* barrier
Nearly impossible to see through and reach last person in chain: **the end shareholder**

Cross-border exercise of shareholders rights

- Multiplicity of intervening parties
- Slow, tiresome, inefficient, costly, inadequate and uncertain
- Communication and processing get stuck on a bumpy road
- Omnibus accounts
- Early market cut-off deadlines for voting instructions
- Loss of votes, double voting, empty voting, no voting at all!
- Difficult if not impossible to identify the shareholder
- “incidental” majorities at GMs
- Difficult to reconcile received voting instructions with voting rights and voting rights owners

-> not very encouraging for the (candidate) foreign shareholder!

What to do about it

- Try to accommodate the expectations of a changing shareholder in a changing shareholding environment
- Address or remove barriers, so as to
 - identify and know the shareholder
 - (re) establish a solid relationship
 - allow the shareholder to fully exercise his rights
 - **Increase cross-border shareholdings**

Securities industry holds the key

CSDs and intermediaries to form the **bridge** between the issuers and the shareholders

Issuers



Shareholders

At the legislative level

- Shareholders Rights Directive 11/07/07
 - improves shareholders' rights in general meetings
 - a step in the right direction
 - However, clear obligations for the companies, but the legislator overlooked that the securities industry is in the driver's seat
- Recommendation to complement the Directive to address intermediaries' duties...
 - Nothing so far
- A European cross border problem calls for a cross border level playing field: domestic rules will not do
- COM Legal Certainty Group 2nd Advice Aug 08 calls for legislative measures on intermediaries duties as account providers

At the industry level

- Two cross sector industry groups: JWGGM and CAJWG
- **Participants:** EuropeanIssuers, ECSDA, ESSF, EBF, EACB, ESBG, FESE (issuers, CSDs, intermediaries, stock exchanges)
- **Context:** EU COM mission to dismantle Giovannini Barrier 3
- **Objective:** increase efficiency and reduce costs and risks
- **Domain:** corporate actions and general meetings
- **Deliverable:** market standards to harmonise communications and processing
- **Application of standards:** EU wide, cross-border and domestic
- **Enforceability:** self-regulatory

Market standards for general meetings

- = implementation of SRD
- Make communication via intermediaries more effective, cost efficient and timely
 - Spread meeting notice incl meeting agenda and documentation
 - Communicate voting entitlement (number of holdings) on record date
 - Inform issuer of shareholders attendance and cast voting instructions
- Info flow from issuer via CSD and chain of intermediaries down to end shareholder and back up again

Market standards for general meetings

- **Components of standardisation**
 - Parties involved: issuer, issuer agent, intermediary, CSD, shareholder...
 - Timelines to be respected
 - Content of the communication
 - Information flow: who says what to whom
 - Messaging format: ISO 20022 compliant
 - Language

Some key features

- Issuer to initiate the information process
- CSD as the ultimate holder as preferred channel to dispatch information via chain of intermediaries
- Cooperation of every party in the chain crucial
- Communication to be continued until the end investor

Some difficult issues

- To reach or not to reach the end shareholder
- Cost aspect: communications to be covered by custody services
- Market standards should not impose a commercial business model
- Standards are simple as such but the underlying practice is unseemly complex: e.g. determination of entitlement at record date complicated by multiple layers of holdings, stock lending, ...

State of play

- Proposed standards on all 3 Processes were submitted to an EU wide market consultation May to July
- Revision of standards as we speak on the basis of market feedback
- Endorsement of involved EU associations in October/November
- Gap analysis and implementation by year end

Market Standards on Corporate Actions

Sets of standards on

- Distributions (with and without options)
- Reorganisations (mandatory and voluntary)
- Transaction management: reallocate proceeds of a corporate action for transactions pending during the processing of a CA:
 - Market claims
 - Transformations
 - Buyer protection

Components of standardisation

- Parties involved: issuer, issuer agent, intermediary, CSD, CCP, shareholder...
- Timelines to be respected
- Content of the communication
- Information flow: who says what to whom
- Messaging format: ISO 20022 compliant
- Language
- Processing
- Payment

State of play

- Proposed standards submitted to EU wide market consultation on 25/09
- Deadline for comments 19 December
- See www.europeanissuers.eu
- 2009: Revision on basis of market feedback
 Gap analysis and implementation

Conclusion

- Today's cross-border and intermediated shareholding is source of difficulties but also opportunities
- Issuers and shareholders depend on the securities industry to comply with their obligations / exercise their rights: e.g. general meetings, dividend payments
- Issuers and the securities industry must team up to make this a success story for all parties involved

Questions?

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Contact

Dorien FRANSENS

Secretary General

EuropeanIssuers aisbl-ivzw

(Rue) Belliard(straat) 4-6

B-1040 Brussels

Tel. 00 32 2 289 25 70

Fax. 00 32 2 502 15 60

e-mail : dorien.fransens@europeanissuers.eu

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