



EUROPEAN CENTRAL BANK

EUROSYSTEM

Substream 2: Corporate Actions, Non Euro Collateral Management & Taxation Forms

Status Update

CMH-TF 20 September 2017

Objective and Deliverables

- Significant heterogeneities exist in how corporate actions are handled today amongst (I)CSDs.
- The substream aims to present some considerations on how harmonised handling of corporate actions could be achieved in the context of collateral management.
- The substream shall identify a list of barriers which should be overcome in order to deliver harmonised messaging and workflows for each CA event type of relevance to collateral management.

Progress to Date

- **Corporate Actions & Non-Euro Collateral Management**
 - **Initial focus of work has been on Corporate Actions and Non-Euro Collateral Management** given the importance of the topic and the high number of issues requiring further analysis
- **Taxation Forms**
 - **Analysis on Taxation Forms to start next week [25 September]**

Corporate Actions - Initial Considerations

Stage 1 (now)

- Members agreed that although identifying the asset classes relevant to each CA is useful, **the focus of the work should be broad as the same messaging standard should be used for all CA events.**
- It was also noted that although some CA events may occur more infrequently than others, **a harmonised approach is needed for the handling of all CA events in order to ensure that all securities remain available for use as collateral during corporate action events, possibly reducing or eliminating the requirement for substitution.**

Stage 2 (Jan 2018)

- The substream also agreed that the ongoing work of other groups such as **CASG and CAJWG could be leveraged at a later stage.**

Corporate Actions - Work in Progress

- Members are currently **reviewing the initial list of topics requiring further analysis** and providing feedback via a dedicated questionnaire. A number of other issues were raised on the substream calls and **members are invited to provide additional suggested topics** [deadline today 20 September].
- **Non-Euro Collateral Management is also being analysed via this questionnaire** with a focus on the handling of corporate actions related to non-euro denominated collateral.
- **The focus of the Group will be on the analysis of the existing topics (together with any newly identified topics)** in order to ensure a clear list of “barriers” and suggested resolution activities are compiled before reporting back to AMI-SeCo in December.

Corporate Actions – Topics Being Analysed

Section 1 - Provision of Corporate Action Information from the (I)CSD to the Collateral Taker

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| 1 | <p>Is sufficient information contained in the corporate action notification message (for all CA events) provided by your (I)CSD to allow the collateral taker to calculate the expected payment amount and / or security movement? <i>For example it is expected that information on the ISIN, interest rate, payment amount, nominal holding etc. would need to be transmitted in each CA notification message to enable the collateral taker to calculate the expected payment amount /security movement for each CA in advance of the payment date.</i></p> | |
| <p>If no, please provide further information on the gaps identified</p> | | |
| 2 | <p>Please identify any potential constraints to the provision of final (complete) corporate action notifications by your (I)CSD to the collateral taker in advance of the payment date. <i>For example a complete corporate action notification may not be sent due to a delay in receipt of information from the paying agent</i></p> | |
| 3 | <p>Do any differences exist in the CA notification / payment provided by the Issuer CSD and the Investor CSD? <i>For example is the content of the CA notification provided by the Issuer CSD and the Investor CSD the same?</i></p> | |
| <p>If yes, please provide a high level description of the differences which exist</p> | | |

Section 2 - Corporate Action Payments

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| 4 | <p>Please document the standardised formula for the calculation of expected payment amounts / security movements in your (I)CSD, and identify whether any local market practices / exceptions exist. <i>For example, for the interest payment the calculation formula may be Nominal*Interest Rate</i></p> | |
| 5 | <p>Please provide a list of reasons why the actual CA payment amount may not match the expected CA payment amount (as calculated based on the information provided in the CA notification message). <i>For example, the information could differ if the Issuer pays an amount different than expected to the CSD</i></p> | |
| 6 | <p>Please explain how cases of delayed CA payments are handled by your (I)CSD <i>For example is the collateral taker informed of the delay via an updated corporate action notification message and if so, what message is sent?</i></p> | |

Section 3 - Handling of Non-Euro Corporate Actions

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| 7 | <p>Please provide a description of how your (I)CSD processes payments related to non-euro denominated collateral. <i>For example in the case of foreign denominated cash flows, some (I)CSDs convert the cash proceeds of a CA event related to non-euro denominated collateral into the euro equivalent before crediting the collateral taker, whilst other CSDs always remit the FX proceeds.</i></p> | |
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Section 4 - CAs with Negative Cash Flows

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| 8 | <p>Please provide a description of the workflow employed by your (I)CSD for the handling of negative cash flows. <i>For example: some CSDs may automatically debit the collateral takers cash account whilst other CSDs may not process CAs with negative cash flows</i></p> | |
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| 9 | <p>Please provide further details on the payment procedures followed by your (I)CSD. <i>For example in some CSDs a single payment aggregating the total amount due for (i) coupons and (ii) redemptions is made, whilst in other cases a payment per ISIN per CA is made allowing a clear link to be made between the CA notification and the CA payment.</i></p> | |
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| 10 | <p>In order to further investigate whether the use of different calculation approaches may result in different payment amounts per CSD please specify how your (I)CSD calculates the payment amount for CA events including information on the number of decimals used.</p> | |
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Section 5 - Corporate Action Events Requiring Manual Processing

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| 11 | <p>Please list those areas / CA events where STP processing is currently not possible <i>For example those events which currently rely upon the use of free format messages should be listed. Please also state the reasons why free format messages are used currently with a view to later defining standardised rules and ISO 20022 messaging to allow the transmission of CA data in a structured message thus facilitating straight through processing of all CA events.</i></p> | |
| | Area / Event | |
| | Description | |
| | Area / Event | |
| | Description | |
| | Area / Event | |
| | Description | |

Section 6 - CA Events Requiring Specific Handling

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| 12 | <p>Please list those CA event types (as listed in tab 2) where participation requires the blocking of collateral in order to facilitate further analysis on whether the blocking of collateral is performed by all (I)CSDs in a harmonised manner. <i>For example for the CA event Merger, a blocking of securities may be required.</i></p> | |
| 13 | <p>Please provide further details on how the substitution of fungible securities takes place in your (I)CSD. The timing when the execution of the substitution takes place should also be documented.</p> | |
| 14 | <p>Does your (I)CSD pay corporate actions using the ‘Modified Following Business Day convention’ which means that, for the purposes of payment, in the event that the payment date falls on a holiday, the payment will be due on the immediately following day, or, if that day falls in the following month, on the day immediately preceding the original payment date. In the case of Monte Titoli a CA notification message is sent containing the balances and indicating the “record time”, on which the payment will be based.</p> | |
| 15 | <p>Do any differences exist in the handling (including messages used) of CAs per quotation type e.g. assets denominated in FAMT vs. assets denominated in UNIT.</p> | |

Section 7 - Handling of Elective CA Events

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| 16 | <p>Please provide details of how your (I)CSD handles counterparty responses to corporate action elective events. <i>For example a collateral taker may provide different responses to the CSD in case securities are held by different counterparties in the same (I)CSD securities account. Also in instances where an omnibus account is used two scenarios have to be distinguished: Counterparty responses are forwarded one by one; and Counterparty responses are collected and only one response is forwarded.</i></p> | |
| 17 | <p>Please identify whether there are instances where no default option may be available for certain elective CA events.</p> | |
| 18 | <p>How does your (I)CSD handle the payment / receipt of fees for the participation in certain elective CA events.</p> | |

Next Steps

- **Corporate Actions & Non-Euro Collateral Management**
 - **Compile responses to CA questionnaire** and identify and document additional issues with a view to presenting a comprehensive list of issues in the October meeting of the CMH-TF.
- **Taxation Forms**
 - **Commence analysis on taxation forms.** Present a preliminary overview of analysis to the CMH-TF in October.