

BN10-12

Implementation of Market Standards for Corporate Actions Processing

Executive summary

The processing of corporate actions (e.g. dividends, rights issues, splits, tender offers) is one of the most complex areas of post trading. The industry has developed market standards under the leadership of AFME that significantly reduce costs and operational risks. These standards have been endorsed by the relevant constituents, i.e. issuers, market infrastructures and banks. Their comprehensive and timely implementation is key to achieving a single integrated post trade system in Europe and beyond. The legal barriers need to be eliminated by EC legislative action.

Overview

Introduction

Due to national differences, such as non-harmonised and non-standardised rules and processes, corporate actions processing is one of the so-called “Giovannini Barriers” that stand in the way of a single, integrated, low cost, low risk post trade system in Europe. This diversity and fragmentation results in excessive costs and unduly high risks.

Market standards reflecting best market practices

In 2008/09 a detailed set of standards was worked out by an AFME-chaired industry working group and endorsed by all relevant constituencies. Covering all categories of corporate actions, the scope these standards includes all dematerialised securities¹ in Europe and all parties involved, i.e. issuers, market infrastructures at trading, clearing and settlement level, banks and end investors.

Required public sector action

In addition to these market standards aimed at removing the operational obstacles, the Legal Certainty Group, set up by the European Commission, has developed recommendations to eliminate the legal obstacles stemming from differences in national law that affect corporate action processing. These recommendations need to be reflected in the evolving Securities Law Directive that covers corporate actions.

The need for harmonisation and standardisation is undisputed. However, private and public sector action is required to ensure the successful removal of the barriers.

¹ i.e. securities in book entry form, unlike certificated securities

The comprehensive and timely implementation of the market standards and legislative action to eliminate the legal barriers are key to success. This requires the commitment of, and intense cooperation between, the private and the public sector. Yet, in the wake of the recent financial crisis and the shift of emphasis by policy makers, this no longer appears assured.

AFME's position

There is a close correlation between efficiency and risk mitigation in the post trade space. Therefore:

- the inclusion of the Legal Certainty Group's corporate actions related recommendations in the evolving Securities Law Directive is of paramount importance;
- the commitment of all relevant constituents to implement the Market Standards for Corporate Actions Processing is key to success and will benefit investors, issuers, market infrastructures and banks alike; and
- the ongoing support of public authorities at both national and European level (the European Commission and the European Central Banks) is crucial throughout the implementation process.

Further information

For the full text of the Market Standards for Corporate Actions Processing see:
<http://www.afme.eu/document.aspx?id=3182>

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