

CAJWG

Explanatory Memorandum

Guiding principles

- Market standards aim at harmonizing market practises across European markets and therefore at eliminating obstacles to an efficient cross-border European financial market
- Market standards reflect industry best practises
- Market standards build on an efficient Issuer to Investor end-to-end communication and processing flow
- Market standards encourage straight through processing and aim at increasing operational efficiency and at reducing risk

Record date and sequence of dates

- Record Date allows the market to distribute the corporate actions proceeds based on settled positions at same reference date and time starting at the Issuer CSD and down through the chain of intermediaries to the end investor
- As a result, even for multi-market securities, there will be no ambiguity as to who will receive the corporate action proceeds
- Sequence of dates ($\text{Record Date} = \text{Ex Date} + \text{settlement cycle} - 1$) ensures that trades which are made before Ex Date (giving right to corporate action) settle on or before Record Date and therefore will be entitled to the corporate action. This sequence of dates minimizes the number of market claims/transformations and therefore also operational risk.
- However where entitlements have been credited to the wrong party because qualifying trades in the underlying security did not settle by close of business on record date, claim transactions will be raised to reposition the distributed proceeds to the entitled party.

Continuation of trading/ settlement

- For securities distributions, distributions with options and reorganizations, the market standards prescribe that (interim/ proceeds) securities are paid on the next Business Day after Record Date.
- This ensures that trades made in the (interim/ proceeds) securities on or after Ex Date can settle as per standard settlement cycle on or after Payment Date.

Actual vs contractual booking of outturn

- The booking or posting of cash and/ or securities will vary through the chain of intermediaries.
- The booking/posting from the Issuer CSD (via the Issuers Agent) crediting those participants that held positions as at record date, is classified as 'actual'. This is because the Issuer CSD cannot credit participants until the outturn is ready and available.
- Within the chain of intermediaries various types of bookings will be performed. Depending on the service level agreement (SLA) some clients of intermediaries may receive their cash or securities entitlement, in full, on pay date, regardless if the intermediary has not received the cash or securities entitlement ('contractual booking').
- Depending on the type of event, and the outturn, intermediaries may make a booking/posting with a different trade date and value date. For example a bonus issue which has the sequence of ex date/record date/pay date, the booking/posting may have trade date as ex date and value/ settlement date as pay date.

Equal treatment of shareholders

- CA Market standards include reference to End Investors as a « Physical or legal person who holds the security for his own account, not including the holder of a unit of a UCIT (undertaking for collective investments in transferable securities) », but do not differentiate by type of End Investor
- As a result, CA Market standards are intended not to discriminate between End Investors, but can not guarantee the same outcome in cases where End Investors preferences differ or where local law or custody service agreements foresee otherwise.