

Market Standards for Corporate Actions Processing For ETFs

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Introduction

This document is based on the document Market Standards for Corporate Actions Processing (revised version 2012), adapted to ETFs. When compared with the document Market Standards for Corporate Actions Processing (revised version 2012)

- **the introduction chapter and the glossary have been left unchanged although only partly relevant for ETFs**
- **the standards for cash distributions have been adapted to ETFs**
- **all other standards have been removed as not relevant for ETFs.**

In the **Giovannini Reports** corporate actions processing is dealt with as **Barrier 3**, where, referring to the existing national differences, the operational problems are characterised by “the variety of rules, information requirements and deadlines for corporate actions. These differences may require specialised local knowledge or the lodgement of physical documents locally, and so inhibit the centralisation of securities settlement.”

Corporate actions processing is deemed one of the most complex areas of post trading. Standardising these processes across all European markets, and possibly beyond, aims at achieving a significant **reduction of respective costs and operational risks**. To dismantle Giovannini Barrier 3, investments may be required in order to become compliant with the standards on corporate actions processing. However, upon implementation of the standards, the European securities market and its users will benefit from cost savings resulting from harmonising the processes **cross border**.

Individual work of associations contributing to the dismantling of Giovannini Barrier 3 was replaced in summer 2007 by the set up of the **Corporate Actions Joint Working Group (CAJWG)**¹ that encompasses the main relevant constituencies, i.e. Issuers, market infrastructures and intermediaries. **The CAJWG’s objective has been to develop a comprehensive set of market standards for the operational processing of all categories of corporate actions**² **including transaction management.**

This document contains the standards developed by the CAJWG, reviewed in the 1st quarter 2009 in consideration of the responses to the market consultation of the 4th quarter 2008 and endorsed by the involved associations: European Issuers, European Central Securities Depositories Association (ECSDA), European Association of Clearing Houses (EACH), Federation of European Securities Exchanges (FESE), European Banking Federation (EBF), European Association of Cooperative Banks (EACB), European Savings Banks Group (ESBG),

European Securities Services Forum (ESSF/SIFMA).

¹ See Annex 1

² Except for general meetings that is the subject of the Joint Working Group on General Meetings

The CAJWG has agreed on basic principles whereby the standards should be based on work already performed and should reflect **future best market practices** (rather than solutions currently applied in most markets) that, once implemented, should **dismantle the operational part of Barrier 3** as concerns the categories of Corporate Actions addressed.

The market standards cover the following **categories of Corporate Actions** (rather than individual event types) as well as **transaction management**:

- Distributions
 - Distributions:
 - Cash Distributions (e.g. cash dividend, interest payment)
 - Securities Distributions (e.g. stock dividend, bonus issue)
 - Distributions with Options (e.g. optional dividend)
- Reorganisations
 - Mandatory Reorganisations with Options (e.g. conversion)
 - Mandatory Reorganisations (e.g. stock split, redemption)
 - Voluntary Reorganisations (e.g. tender offer)
- Transaction Management
 - Market Claims (Distributions)
 - Transformations (Reorganisations)
 - Buyer Protection (Elective Corporate Actions)

The scope of application of the market standards includes

- all types of the above categories of Corporate Actions (Distributions and Reorganisations)
- all securities used for direct investments (equities, fixed income instruments) deposited and settled in Book Entry form with an (I)CSD in Europe; investment funds listed and traded on a regulated trading venue should be processed, where possible, in accordance with the applicable standards hereof
- all parties involved, i.e. Issuers, market infrastructures (trading, clearing and settlement), Intermediaries and End Investors, except for standards for transaction management which are directed at market infrastructures and Intermediaries only.

The **subject matter** of the standards concerns

- the information flow throughout the chain of relevant parties
- key dates and their sequence
- the operational processing of Corporate Actions.

It is important to note that, within the standards, **entitlements** are determined from the actual settled positions in the Issuer (I)CSD's books on **Record Date**, whereas Intermediaries may calculate on a contractual settlement basis on **Ex Date**.

The CAJWG takes the view that in order to reap the full benefits of the standards the **harmonisation of Settlement Cycles in Europe** is required. However, the implementation of the standards should not be delayed in the absence thereof.

Glossary

Note: Definitions given in this glossary are for the purpose of the standards on Corporate Actions only and are not intended to have any legal connotations or to reflect current market practices.

Actual Settlement Date	Date on which the settlement effectively takes place.
Bilateral Input	Instructions submitted by both parties to settlement as opposed to direct input, which is submitted by third parties.
Book Entry	Accounting of securities and other financial assets in dematerialised or immobilised form.
Business Day	Business day at the Issuer (I)CSD.
Buyer Protection	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.
Buyer Protection Deadline	Last day and time by which a Buyer Protection instruction can be given.
CCP	Central counterparty, i.e. an entity that interposes itself between the two parties to a trade, becoming the buyer to every seller and the seller to every buyer.
Cash Distribution	A Distribution where the proceeds consist of cash only.
Chain of Intermediaries	Sequence of Intermediaries connecting the Issuer / Issuer CSD with the End Investor and vice versa in respect of securities held by Book Entry in a securities account.
Corporate Action	Action initiated upon a security by the Issuer or an Offeror.
Distribution	Corporate Action whereby the Issuer of a security delivers particular proceeds to the holder of the Underlying Security without affecting the Underlying Security.

Distribution with Options	A Distribution with a choice of proceeds.
Election Period	Period during which elections can be made.
Elective Corporate Action	Distribution with Options, Mandatory Reorganisation with Options or Voluntary Reorganisation.
End Investor	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).
Ex Date	Date from which the Underlying Security is traded without the benefit / right attached to it. For ETFs, the ex-date should be a business day for the Fund and the issuer (I)CSD
Fractions	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.
Guaranteed Participation Date	Last date to buy the Underlying Security with the right attached to participate in an Elective Corporate Action.
(I)CSD	(International) Central Securities Depository
Intended Settlement Date	Date on which a Transaction is due to settle.
Interim Security	Short term transferable operational instrument, issued for processing purposes only, which is not representative of the Issuer's capital.
Intermediaries	Financial institutions that provide and maintain securities accounts.
Investor (I)CSD	(I)CSD that holds securities with another (I)CSD or with an Intermediary.

ISIN	International Securities Identification Number
ISO	International Organization for Standardisation
Issuer	The issuer of an Underlying Security including the agent mandated by the Issuer for Corporate Actions purposes.
Issuer (I)CSD	(I)CSD with whom the Issuer has deposited and maintains its primary securities issuance by Book Entry.
Mandatory Reorganisation	A Reorganisation that mandatorily affects the Underlying Security.
Mandatory Reorganisation with Options	A Mandatory Reorganisation with a choice of proceeds.
Market Claim	Process to reallocate the proceeds of a Distribution to the contractually entitled party.
Market Deadline	Last date and time, preferably end of day, to send election instructions to the Issuer (I)CSD.
Matching	Process of comparing the two relevant settlement instructions as provided by the two counterparties to ensure that they match.
Offeror	Party (other than the Issuer) including its agent, offering a Voluntary Reorganisation.
Payment	Delivery of the proceeds of a Corporate Action.
Payment Date	Date on which the Payment is due.
Pending Transaction	Unsettled Transaction.
Record Date	Date on which settled positions are struck in the books of the Issuer (I)CSD at close of business to determine the entitlement to the proceeds of a Corporate Action.
Reorganisation	A Corporate Action whereby the Underlying Security is replaced with proceeds.

Securities Distribution	A Distribution where the proceeds consist of securities.
Settlement Cycle	Number of Business Days from the trade date to the Intended Settlement Date.
Transaction	The result of Matching.
Transfer Agent	A transfer agent is a <u>trust company</u> , bank or similar <u>financial institution</u> assigned by a <u>corporation</u> to maintain records of investors and <u>account balances</u> . The transfer agent records transactions, cancels and issues ETFs and works closely with a registrar to ensure that investors receive dividend and liquidation payments when a dividend distribution or a termination is declared by the Board of Directors of the Company.
Transformation	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 Reorganisation.
Underlying Security	Security that is the subject of a Corporate Action.
Underlying Transaction	Transaction upon which a Market Claim, Transformation or Buyer Protection is applied.
Voluntary Reorganisation	A Reorganisation in which participation is optional for the holder of the Underlying Security.

Sequence of dates graphs

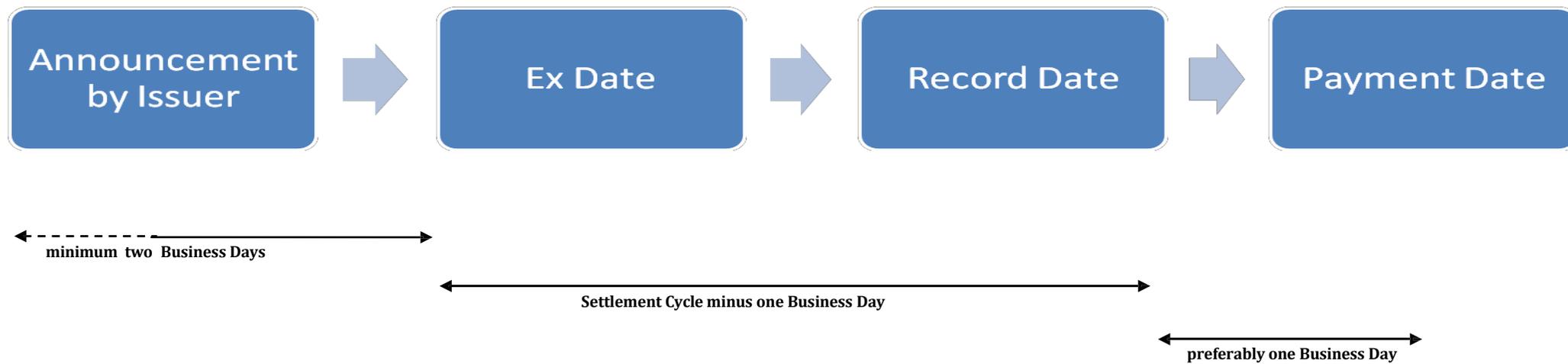
Graphs in this document are for illustrative purposes only; please refer to the standards for a detailed description of the timelines.

In the absence of harmonised Settlement Cycles, the graphs in this document do not use a day-by-day timeline. They show the sequence of key dates as well as the length of intervals between key dates including the relevant daytime of these dates.

Cash Distributions

Cash Distributions

Sequence of dates



Note that the Ex Date is not applicable to securities in nominal, e.g. bonds

Market Standards for Cash Distributions

Information from Issuer and/or Transfer Agent to Issuer (I)CSD

1. The Issuer and/or Transfer Agent should inform its Issuer (I)CSD of the details of a Cash Distribution, including the key dates, as soon as the Issuer has publicly announced the Corporate Action according to applicable law. It should also inform the Issuer (I)CSD of any change or confirmation of the Corporate Action.
2. For floating rate instruments, the Payment Date confirmation and the announcement of the next applicable rate with reference to the applicable period for that new rate should be made in two separate announcements and not combined in the same.
3. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective of the communication channel used.
4. For narrative text in the information, Issuers with an international shareholder base should use at least a language customary in the sphere of international finance, currently English.

Information from Issuer (I)CSD to its participants

5. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer, to all its participants¹ who, at the time of the announcement, have a direct holding or Pending Transaction in the Underlying Security with the Issuer (I)CSD.
6. The Issuer (I)CSD should also inform, without undue delay, any participant who obtains a holding or is subject to a new Transaction on the Underlying Security after the announcement until the Record Date.
7. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective of the communication channel used.
8. If a Payment needs to be reversed, an announcement, including the reason for such reversal, should be made by the Issuer (I)CSD to all affected parties prior to processing the reversal.

¹ Including Investor (I)CSDs

Information flow from (I)CSD participants to End Investors

9. (I)CSD participants, their clients and the onward Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 5 and 6 above until the information reaches the End Investor. For End Investors, information by means of account statement is deemed sufficient unless provided otherwise in their service level agreement.
10. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as the ISO standards, irrespective of the communication channel used.
11. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

Key dates

12. Key dates are:
 - a) for Distributions relating to securities in nominal (e.g. bonds): Record Date and Payment Date.
 - b) for Distributions relating to securities in units (e.g. shares): Ex Date, Record Date and Payment Date.
13. The public announcement by the Issuer under standard 1 above should be made at least two Business Days before the Ex Date.
14. For floating rate instruments, the payable rate should be confirmed as soon as possible but no later than three Business Days before the Payment Date.
15. The Ex Date should precede the Record Date by one Settlement Cycle minus one Business Day.
16. The Payment Date should be as close as possible to the Record Date, preferably the next Business Day.

Processing

17. Payments should be by Book Entry.
18. Interest Payments should be processed separately from redemptions even if their Payment Dates coincide.
19. All Cash Distributions and related Market Claims should be paid in cash and not coupons.

20. For Payments, the following should apply:

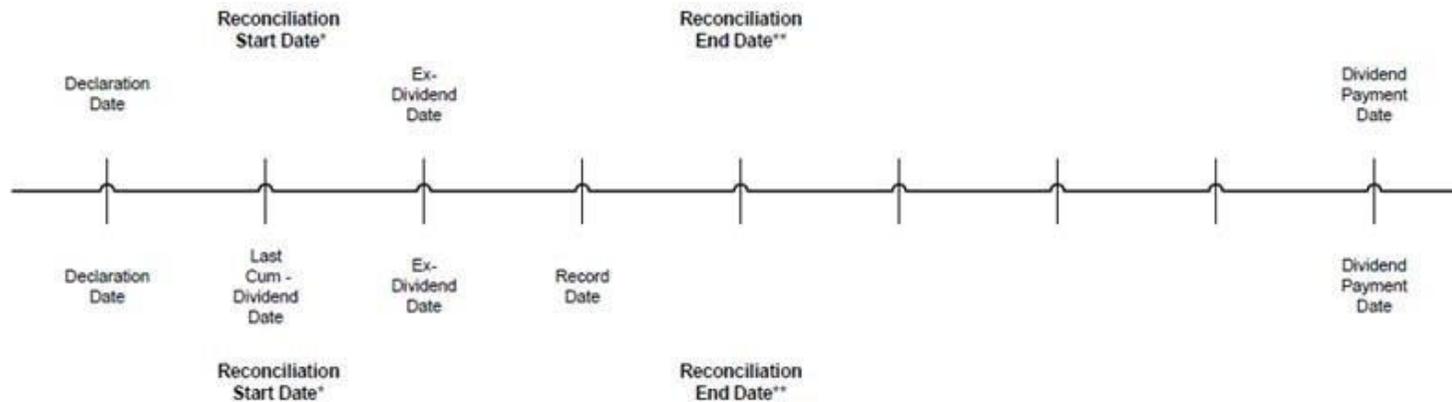
- a) From Issuers to (I)CSD participants, Payments should be made through the Issuer (I)CSD, using the same Payment mechanism as for other cash transactions through the Issuer (I)CSD.
- b) Payments by Issuers and Issuer (I)CSDs should be in the original currency as per the announcement under standard 1 above.
- c) The Issuer should make Payments as early as possible after opening of the Payment system and no later than 12:00 noon Issuer (I)CSD local time.
- d) No blocking of holdings for the purpose of Cash Distributions.
- e) If a correction of the Payment is necessary, it should take the form of a complete reversal of the Payment followed by a new correct Payment.

ETF Specifics

- 21. Transfer Agents should apply the normal trading cycle (i.e. T+2) for primary market trades around the dividend period
- 22. Settlement fails should be investigated as from the announcement date by all concerned intermediaries in the chain in order to facilitate the reconciliation process before the payment date (see timeline below)

Fund Dividend Distributions – Reconciliation Timelines

Fund



Issuer's (I)CSD

- Primary market settlement cycle: T+2
 - Recommended reconciliation start date: Fund record date/Issuer's (I)CSD last cum-dividend date
 - * Breaks relating to primary market trades with NAV date \leq Declaration Date - 1: immediate investigation required (these may relate to old fails)
 - Reconciliation to continue until breaks on trades with NAV date \leq Fund record date/Issuer's (I)CSD last cum-dividend date are cleared
 - ** Earliest reconciliation end date
- Assumption: No breaks on trades with NAV date \leq Fund record date/Issuer's (I)CSD last cum dividend date