

**CAJWG & T2S CASG**

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# CAJWG & T2S CASG Standards

- **CAJWG – Market Standards for Corporate Actions Processing**
- T2S CASG – Standards for Transaction Management

# Introduction

## CAJWG

- Categories of Corporate Actions
  - Distributions
  - Reorganisations
  - Transaction Management
- The scope of application of the proposed market standards includes
  - All types of the above categories of Corporate Actions
  - 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
- Subject matter of the standards
  - Information flow throughout the chain
  - Key dates and their sequence
  - Operational processing

# Announcements

- The standards for announcements cover the entire chain
  - Information from issuer to issuer (I)CSD
  - Information from issuer (I)CSD to its participants
  - Information flow from (I)CSD participants to end investors
- The standards are consistent across the different categories, but there are a few differences

# Announcements

## Information from issuer to issuer (I)CSD

- The issuer should inform its issuer (I)CSD of the details of an event as soon as the issuer has publicly announced the corporate action. It should also inform the issuer (I)CSD of any change or confirmation of the event, and/or of any other details that apply
- The information should be communicated in formatted electronic form using ISO standards irrespective of the communication channel used
- Issuers with an international shareholder base should use at least English for information in narrative

# Announcements

## Information from issuer (I)CSD to its participants

- The issuer (I)CSD should communicate all information received, without undue delay, to all its participants who have a direct holding or pending transaction in the underlying security with the issuer (I)CSD
- The issuer (I)CSD should also inform, without undue delay, any participant who obtains a holding or is subject to a new transaction
- The information should be communicated in formatted electronic form using ISO standards irrespective of the communication channel used
- If a movement needs to be reversed, an announcement should be made by the issuer (I)CSD to all affected parties prior to the reversal

# Announcements

## Information from (I)CSD participants to end investors

- (I)CSD participants, their clients and the onward chain of intermediaries should comply with the first two standards of information in the previous slide from issuer (I)CSD to its participants until the information reaches the end investor
- The information should be communicated to intermediaries in formatted electronic form using ISO standards irrespective of the communication channel used
- The information should be communicated to non-intermediaries in a clear and comprehensible way

# Distributions

- Distributions are divided into
  - Distributions
    - Cash Distributions (e.g. cash dividend, interest payment)
    - Securities Distributions (e.g. stock dividend, bonus issue)
  - Distributions with options (e.g. optional dividend)



# Distributions

## Cash distributions

- Information flow specifics
  - 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
  - For end investors, information by means of account statement is deemed sufficient
- Key dates
  - For securities in nominal: record date and payment date
  - For securities in units: ex date, record date and payment date
  - The payment date should be as close as possible to record date, preferably the next business day
  - For floating rate instruments, the payable rate should be confirmed no later than three business days before the payment date

# Distributions

## Cash distributions, cont.

- Processing
  - Interest payments should be processed separately from redemptions even if they have the same payment dates
  - All cash distributions and related market claims should be paid in cash and not coupons

# Distributions

## Securities distributions

- Information flow specifics
  - The issuer should also inform the issuer (I)CSD of the reference price for compensation of fractions by the issuer, if any, and to do so as soon as possible and at the latest on the business day before record date
  - For end investors, information by means of account statement is deemed sufficient
- Key dates
  - Ex date, record date and payment date
  - The payment date should be the next business day after record date
- Processing
  - Payments should be rounded down to the nearest whole number (using the top-down method)
  - For payments of fractions in cash, the standards for payment of cash applies and provided the issuer has set a reference price for the fractions, the payment of fractions compensation is to take place on the same day as the securities distribution

# Distributions

## Distributions with options

- Distributions with options should be represented by an interim security with an official ISIN
- The issuance of the interim security and the options attached to it should be operationally treated as two separate events, the first being a distribution, the second a mandatory reorganisation with options (or a voluntary reorganisation). They should be communicated to the issuer (I)CSD at the same time and the second event type should be indicated in the information of the first event
- The election period determined by the issuer should not start before the payment date of the interim security
- The intended settlement date of any transaction in the interim security should not be prior to the payment date of the interim security

# Reorganisations

- Reorganisations are divided into
  - Mandatory Reorganisations with Options (e.g. conversion)
  - Mandatory Reorganisations (e.g. stock split, redemption)
  - Voluntary Reorganisations (e.g. tender offer)

# Reorganisations

## Mandatory reorganisations

- Information flow specifics
  - The issuer should also inform the issuer (I)CSD of the reference price for compensation of fractions by the issuer, if any, and to do so as soon as possible and at the latest on the business day before record date
- Key dates
  - Last trading date, record date and payment date
  - The last trading date, i.e. the last date to trade the old ISIN, should precede the record date by at least one settlement cycle
  - The payment date should be the next business day after record date

# Reorganisations

## Mandatory reorganisations, cont.

- Processing
  - Redemptions should be processed separately from interest payments even if they have the same payment dates
  - An ISIN that is different from the ISIN of the underlying security should be allocated to each outturn security
  - For payments of fractions in cash, the standards for payment of cash applies and provided the issuer has set a reference price for the fractions, the payment of fractions compensation is to take place on the same day as the reorganisation

# Reorganisations

## Mandatory reorganisations with options

- Information flow specifics
  - The issuer should also inform the issuer (I)CSD of the reference price for compensation of fractions by the issuer, if any, and to do so as soon as possible and at the latest on the business day before market deadline
- Key dates
  - Start of election, guaranteed participation date, buyer protection deadline, market deadline and payment date
  - The start of the election period should be at least ten business days before market deadline
  - The guaranteed participation date should precede the buyer protection deadline by one settlement cycle
  - The buyer protection deadline should be at least one business day before market deadline
  - The payment date should as close as possible to market deadline, preferably the next business day



# Reorganisations

## Mandatory reorganisations with options, cont.

- Processing
  - An ISIN that is different from the ISIN of the underlying security should be allocated to each outturn security
  - Each option should have a unique identifier provided by the issuer, that will be maintained by the issuer (I)CSD and all intermediaries
  - Underlying securities on which an election is made should be separated accounting-wise from non-elected underlying securities by the (I)CSD and all intermediaries
  - For non-elected underlying securities, the default option as announced by the issuer should apply
  - For payments of fractions in cash, the standards for payment of cash applies and provided the issuer has set a reference price for the fractions, the payment of fractions compensation is to take place on the same day as the reorganisation

# Reorganisations

## Voluntary reorganisations

- Information flow specifics
  - Issuer or offeror, as the case may be
- Key dates
  - Start of election, guaranteed participation date, buyer protection deadline, market deadline, payment date and results publication date (if applicable)
  - The start of the election period should be at least ten business days before market deadline
  - The guaranteed participation date should precede the buyer protection deadline by one settlement cycle
  - The buyer protection deadline should be at least one business day before market deadline
  - The results publication date should follow the market deadline as soon as possible, preferably the next business day, but before the payment is made

# Reorganisations

## Voluntary reorganisations, cont.

- Key dates, cont.
  - Payment date should preferably be one business day after results publication date, or after market deadline in case the event is not conditional
- Processing
  - An ISIN that is different from the ISIN of the underlying security should be allocated to each outturn security
  - Each option should have a unique identifier provided by the issuer, that will be maintained by the issuer (I)CSD and all intermediaries
  - Underlying securities on which an election is made should be separated accounting-wise from non-elected underlying securities by the (I)CSD and all intermediaries
  - For non-elected underlying securities, the default option as announced by the issuer should apply

# Glossary

- Definitions given in the 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
- Definitions have been included for terms that
  - are central to the standards, and/or
  - could be subject to misinterpretation, and/or
  - are new or changed concepts in all or some markets
- Other glossaries have been used as a basis for some of the definitions, but have been amended wherever necessary to reflect the views of the CAJWG
- The definitions are the result of much deliberation, and are intended to be comprehended and applied by all involved parties in the same manner

# CAJWG & T2S CASG Standards

- CAJWG – Market Standards for Corporate Actions Processing
- **T2S CASG – Standards for Transaction Management**

# Introduction

## Transaction Management

- Transaction Management is divided into
  - Market Claims (Distributions)
  - Transformations (Reorganisations)
  - Buyer Protection (Elective Corporate Actions)
- The objective of a market claim is to ensure that the proceeds of a distribution reach the entitled party of a pending transaction
- The objective of a transformation is to ensure that the original transaction impacted by a reorganisation can continue its lifecycle
- The objective of buyer protection is to ensure that the buyer in a pending transaction, who has acquired the right to elect on a corporate action, will receive the outturn of its choice by instructing the seller specifying the option chosen

# Introduction

## T2S CASG

- The standards concern Transaction Management only
- The T2S standards are based on the CAJWG standards
  - They describe how to apply the CAJWG standards for Transaction Management in a T2S context
  - The CAJWG and T2S standards are aligned
- The standards are divided into three sections, published as separate documents
  - Market Claims
  - Transformations
  - Buyer Protection
  - There is also a supporting document, describing the T2S model for identification of transactions and creation of market claims and transformations

# Introduction

## T2S CASG, cont.

- The scope of application of these standards covers in principle all securities transactions and all financial instruments eligible for settlement in T2S
- The standards are primarily focused on the need to establish a best market practice framework for transaction management in the cross-CSD settlement environment of T2S. Transaction management within a single CSD is the sole responsibility of the CSD in question



# Market claims

- Detection of market claims
  - A market claim should be detected by the two Instruction Owners CSDs (IOCs), or the CCP(s) where applicable, of the two counterparties in the transaction
  - Market claims should be detected up to a maximum of 20 T2S opening days from record date, starting after c-o-b record date
  - Market claims should be detected for all types of matched (irrevocable) transactions, but an opt-out facility should be provided by CSDs
  - Counterparties in the underlying transaction may choose to include the ex/cum indicator only if they want to deviate from the standard market claim procedure

# Market claims, cont.

- Lifecycle of market claims
  - Lifecycle of market claims as per standard T2S rules. The lifecycle of a market claim instruction is not linked to the underlying settlement instruction, but (I)CSDs should provide a facility to enable subsequent linking by the parties
  - Cancellation of market claims as per standard T2S rules
- Settlement of market claims
  - As per standard T2S rules. No partial settlement
- Reporting of market claims
  - The generation will be reported by the generating (I)CSD/CCP to its participant
  - Matching/settlement status reports and confirmations will be sent by T2S

# Transformations

- Transformation of settlement transactions
  - Applicable settlement transactions should be transformed by the two instruction owner (I)CSDs (IOCs), or the CCP(s) where applicable, of the two counterparties in the transaction
  - Settlement transactions should be transformed up to a maximum of 20 T2S opening days from record date/market deadline, starting after c-o-b record date/market deadline
  - All types of matched (irrevocable) transactions should be transformed, but an opt-out facility should be provided
- Transformation generation
  - Each IOC should use the terms of the event, as notified via the issuer (I)CSD, in the transformation
  - The transformed instructions should include at least the reference of the underlying instructions and the reference of the CA event
  - The transformed instructions must match

# Transformations, cont.

- Lifecycle
  - The earliest settlement date of the new transaction(s) should be the latest between the payment date of the entitlement and the settlement date of the underlying transaction
  - The transformed instructions should reflect the underlying settlement instructions to the extent possible. This includes status (frozen/not frozen), partialling indicator of the original transaction instruction, ex/cum indicator and opt-out indicator related to the market claim creation
  - In case of one securities outturn, the possible exceptions are quantity of securities, ISIN and settlement date
  - In case of multiple securities outturns, the possible exceptions are quantity of securities, ISIN, settlement date and allocation of the settlement amount according to the rates provided by the issuer

# Transformations, cont.

- Lifecycle, cont.
  - In case of cash outturn, cash transfer settlement instructions should retain the same characteristics as those of the underlying transaction. If the instruction of the underlying transaction was against payment, two new instructions, in opposite directions, will be created; one for the settlement amount and one for the cash outturn. The transfers should not be linked. If the instruction of the underlying transaction was free of payment, only one transfer, for the cash outturn, will be created
  - In case of fractions in the outturn, the number of securities should be rounded down. If the issuer compensates the fractions in cash, an additional cash transaction (PFOD) should be created with the same characteristics as the underlying transaction

# Buyer protection

- Manual buyer protection in accordance with the CAJWG standards is to be implemented in all European markets, except those that have implemented automated buyer protection
  - This requirement is recognised and supported by the T2S Advisory Group
- The T2S CASG standards state that
  - If the issuer (I)CSD offers automated buyer protection services, then all investor CSDs involved in the underlying transaction should offer buyer protection services for pending transactions on securities issued in the Issuer CSD
  - If both investor CSDs offer buyer protection services, all securities transactions between their participants can be subject to buyer protection, including transactions in securities for which the issuer CSD does not provide buyer protection

# Buyer protection, cont.

- Invocation of buyer protection
  - Buyer protection must be invoked by the buyer
  - When buyer protection is not invoked, the market default will apply
  - All matched transactions in securities that are covered by automated buyer protection and pending on buyer protection deadline can be subject to buyer protection
- Buyer protection instructions
  - Matching of instructions is required, but an acknowledgement from the seller to the buyer is recommended
  - A buyer protection instruction should include the reference of the underlying instruction and the reference of the CA event
  - Late instructions are subject to bilateral agreement and/or CSD/CCP rules

# Buyer protection, cont.

- Lifecycle
  - The buyer protection deadline should be at T2S end of day on the day before market deadline
  - The guaranteed participation date/last trading day of the underlying security should be one settlement cycle + 1 business day before market deadline
  - Only the buyer may amend a buyer protection instruction, and only the election can be amended
  - Protected settlement transactions should be allowed to settle (if possible) before buyer protection deadline
  - Pending protected settlement transactions should be frozen by the IOCs until their transformation, according to the buyer protection instruction, on market deadline/record date



# Buyer protection, cont.

- Settlement
  - If buyer protection is automated, the CSD/CCP will freeze and transform the underlying transaction in accordance with the buyer instruction. If buyer protection is manual, the buyer and seller shall amend the underlying transaction by canceling and re-instructing it under the new terms
  - Partial buyer protection instructions are not possible; the settlement transactions must first be shaped according to the desired quantities
  - The settlement date of the buyer protection instruction should be the payment date of the entitlement
  - In other respects, settlement of buyer protection instructions should be performed in accordance with settlement of transformations