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| AMI-SECO HARMONISATION STEERING GROUP**Collateral Management Harmonisation Task Force (CMH-TF)** collateral\_management\_harmonisation@ecb.europa.eu  | **ECB-UNRESTRICTED** |
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| CMHA2: Corporate Actions |  November 2018 |
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| **Corporate Actions Harmonisation** |

**Background**

As part of its work on harmonisation of collateral management related processes the *Advisory Group on Market Infrastructures for Securities and Collateral* (AMI-SeCo) have identified a strong need to achieve further harmonisation of corporate action processing in Europe. In June 2018 the AMI-SeCo published a [report](https://www.ecb.europa.eu/paym/initiatives/shared/docs/d5f88-ami-seco-2018-06-22-item-04.1-cmh-tf-report-on-corporate-actions.pdf) on how harmonisation could be achieved. The report was endorsed by market stakeholders and it was agreed that ISO 20022 messaging for corporate actions should be adopted by relevant market stakeholders by November 2022. In addition a series of follow-up items were identified for which market input is now sought.

* **Input requested from SMPG members**

We would welcome if SMPG members could discuss the six questions raised in this document in the next scheduled telco on 13 November. Informal written feedback from SMPG members is also welcome by 14 November. In case it is not feasible for members to provide feedback on all points by this date we kindly invite members to firstly respond on questions 1, 2 and 3 by this date.

**Question 1: Identification of CA events relevant to debt instruments**

As part of the first phase of the CA harmonisation work, AMI-SeCo agreed to focus on the harmonisation of processing of CA events relevant to Eurosystem eligible debt instruments. Currently however there is no **market practice specifying the CA event types which can be processed on debt instruments**. Following various consultations with market stakeholders we have now identified a list of approximately 40 events which are relevant to Eurosystem collateral. There are a few remaining event types however where views diverge amongst market participants regarding their relevance for use on debt instruments. Accordingly we would welcome the views of the SMPG on the following event types in the table below.

***CA Events***

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| --- | --- | --- | --- |
| ***Event*** | ***Proposal*** | ***Relevance to Eurosystem eligible debt instruments.*** | ***SMPG View?*** |
| **MRGR** | **No**  | This CA event type is not relevant. * In almost all markets, the CA event type is not relevant to Eurosystem eligible debt instruments. However, one market indicated that is relevant. The input of the issuers and the issuer’s agents should be requested in that market (in view of using an alternative event) as it not clear how a MRGR event would work in practice on bonds.
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| **PARI** | **Yes** | This CA event type is relevant. * In almost all markets, the CA event type may be relevant for debt instruments, but, it is less frequent on Eurosystem eligible securities but there are a few cases today. Nothing prevents increase of volumes on eligible assets in the future.
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| **TEND** | **Yes**  | This CA event type is relevant. * In majority of markets it was relevant, and in one market it was relevant for Investor CSD where the usage of TEND is being applied on XS instruments. This is an event type frequently used on the international market.
* However, it is less frequent on Eurosystem eligible securities.
* Some respondents indicated that TEND may not be relevant in their market.
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| **RHDI** | **?** | This CA event type is potentially relevant. [tbc]* According to the CAJWG standards, a distribution with option should be processed with two events: a mandatory distribution followed by a mandatory or voluntary event with options. In the French market, RHDI is currently processed on Eurosystem eligible debt instruments. However the majority of CSDs in Europe state that RHDI is not relevant to debt instruments. The views of the SMPG on the relevance of RHDI to debt instruments are kindly invited.
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| **CLSA** | **No** | This CA event type is not relevant. * Respondents explained that historically, the CLSA has not been relevant in European markets. One respondent explained that it cannot be excluded that this may become relevant for investment-grade corporate debt instruments going forward.
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| **PPMT** | **No** | This CA event type is not relevant. * Historically, the PPMT events are not commonly recognised as relevant in any great degree for debt instruments. However, it cannot be excluded that this may become relevant for investment-grade corporate debt instruments going forward.
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***Meeting Related Events***

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| --- | --- | --- | --- |
| ***Event*** | ***Proposal*** | ***Relevance to Eurosystem eligible debt instruments.*** | ***SMPG View?*** |
| **BMET** | **Yes**  | This CA event type is relevant as Bond Holder Meeting (BMET) is the correct event type to communicate information on meeting events related to debt instruments. |  |
| **MEET** | **No** | This CA event type is not relevant to bonds. Usage should be restricted to equities only. |  |
| **OMET** | **No**  | This CA event type is not relevant to bonds. Usage should be restricted to equities only. |  |
| **XMET** | **?** | Could XMET also be announced on bonds or should BMET be used instead? |  |
| **CMET** | **?** | Could CMET be announced on bonds? |  |

**Question 2: Market practice for the notification of blocking of securities (see Annex for full details)**

Currently there is no standard market practice by which an (I)CSD and/or other intermediary confirm or process the blocking of securities following the receipt of an instruction to participate in certain elective CA events. **The CMH-TF has identified a strong need to have a common process/market practice based on the usage of an ISO 20022 message by which CSDs in Europe should confirm or advise that security positions have been blocked.** We welcome SMPG input on a common rule / process how this can be achieved.For example it could be considered that the CSD should always notify the relevant party if securities have been blocked using a CA Instruction Status Advice (seev.034) message.

**Question 3: Guidance on usage of ISO 20022 message types**

**The following ISO 20022 message types have been identified as being relevant to the processing of CA events. In this context we have the following questions on the usage of both messages in an European context.**

* **Message Name:** Corporate Action Movement Preliminary Advice (seev.035)
* **Usage:** An account servicer sends the CorporateActionMovementPreliminaryAdvice message to an account owner or its designated agent to pre-advise upcoming posting or reversal of securities and/or cash postings.
* **Question:** our proposal is that European CSDs should send this message to relevant parties on a mandatory basis once the final information related to cash and/or securities movements is known i.e. the CA is in the status COMP (i.e. the CA information is considered final[[1]](#footnote-1)). We invite the SMPG to agree with this proposal.
* **Name:** Corporate Action Instruction Statement Report (seev.042)
* **Usage:** An account servicer sends the CorporateActionInstructionStatementReport message to an account owner or its designated agent to report balances at the safekeeping account level for one or more corporate action events or at the corporate action event level for one or more safekeeping accounts.
* **Question:** we understand that this ISO message can be sent to participants on an optional basis. Do SMPG members consider that this message would be used by CSDs/custodians to its clients in Europe?

**Question 4: Need for market practice for key dates relevant to the sending of CA messages**

In case a CA has to be reversed, a CA Movement Preliminary Advice (CAPA) message should be sent in advance of the reversal date to pre-advise the need for the proceeds of the corporate action event to be returned in order to allow sufficient time to arrange for the return of cash proceeds paid out as part of the original corporate action. In this context **we have identified a need to define rules for the following processes related to the reversal of CA movements**.

1. A market practice should be established specifying the minimum no. of days the CA Preliminary Advice message should be sent in advance of the reversal date in order to allow the account holder sufficient time to arrange for the return of the cash proceeds paid out as part of the original CA.
2. In addition we would also like to define a rule specifying the maximum no. of days after the original payment date that the reversal should be announced within.

**Question 5: SMPG Guidelines for the processing of all CA events**

As part of the next phase towards implementation of ISO 20022 messaging for CAs by relevant actors in Europe **we would investigate whether it is possible for the SMPG to create ISO 20022 messaging guidelines for the few remaining CA events/meeting events not yet covered in MyStandards[[2]](#footnote-2)** **by end Q1-2019** (initially starting with those events deemed relevant to Eurosystem eligible debt instruments – See CA report) to ensure that ISO 20022 messages implemented by relevant bodies are compliant with SMPG market practices. As the AMI-SeCo will implement a formal monitoring framework to ensure compliance with the relevant standards it is a good opportunity to ensure SMPG messaging practices are adhered to.

**Question 6: Identification of CA events where the CA Narrative (CANA) message could be used**

The ISO 20022 CANA message specification states that the message should only be used for the processing of the cases specified in the table below. As part of follow-up we would like to **elaborate further rules on those restricted CA processes where a CA Narrative (CANA) message should be used and identification of CA events to which they relate**.

**Current Usage Rules for CA Narrative Message (seev.038)**

If the CA event contains any of the 6 restricted processes listed below then the account owner or the

account servicer may send the Corporate Action Narrative message to provide specific narrative

information:

* **Taxation Conditions** - Provides taxation conditions that cannot be included within the structured fields of this message.
* **Registration Details** - Provides information required for the registration.
* **Withholding Tax Relief Certification** - Certification process for withholding tax reduction or exemption based on the tax status of the holder.
* **ICSD Refusal Of Mark Up Down Confirmation** - In the context of a corporate action, an International central Securities Depository (ICSD) refuses a mark-up/mark-down confirmation sent by the account servicer.
* **Chasing Of Prior Authorization** - International Central Securities Depository (ICSD) chases the authorisation from the account servicer in order to process the exchange from global temporary to global permanent.
* **Confirmation Of Holding Transfer** - Confirmation of transfer of interests between International Central Securities Depositories (ICSDs) following a corporate action.

SMPG members are invited to:

1. Confirm that the narrative message should only be used to transmit the information specified above
2. Specify the CA events for which the CANA message is relevant e.g. WTRC, CERT etc.

**Annex 1: CMH-TF analysis on blocking of securities subject to a CA event**

**Background**

A harmonisation need was identified by the CMH-TF with regard to the blocking[[3]](#footnote-3) of securities subject to a CA event as described below.

**Issue Description**

**Priority 2 - No. 3: CA Events where Participation Requires the Blocking of Securities**

Description: Identification of those CA events where participation in the CA event requires the blocking of securities.

**Harmonisation Need: Further input / analysis is required in order to clarify if the same set of CA events are subject to blocking across all CSDs. Accordingly there may be a need for harmonisation in this area.**

Description: Identification of those CA events where participation in the CA event requires the blocking of securities.

**Harmonisation Need: Further input / analysis is required in order to clarify if the same set of CA events are subject to blocking across all CSDs. Accordingly there may be a need for harmonisation in this area.**

Blocking is typically used on elective events from the moment a clients' election has been positioned and an instruction to the agent has been sent until debit (surrender) of accepted securities must occur and payment takes place. Blocking is not used in case only record date positioning is required (This method is used when the exercise security that does not need to be surrended by entitlement is defined only by record date holding basis (such as rights distribution, often voting etc.). The movement of securities to ensure acceptance of instruction is required in the majority of markets, however when, and how, differs (see Annex 1). In addition, when securities are subject to blocking, different message types may be sent to confirm the blocking and subsequent unblocking of these securities.

**Fundaments underpinning potential harmonisation proposal**

Of the CA events identified as relevant to Eurosystem debt instruments, the participation in predefined list of CA events should lead to a blocking of the underlying security (together with the exceptions identified). It is understood that the blocking is performed automatically if participating in any of the identified event types i.e. the customer does not have to request a blocking of securities. The standard market practice should be based on an ISO 20022 message by which market participants are notified of a blocking/unblocking of securities. Based on the feedback received from (I)CSDs in ECSDA, the following harmonisation proposal is made for blocking of securities in T2S markets.

* ***Securities should be blocked upon instruction on an elective event - by moving the securities from one account to another securities account with restrictions.***

This is a standard settlement to a distinct securities account with restrictions so that clients cannot instruct. If there is no record date (RD), on an elective event, there is a blocking of securities; if there is a RD, there is a blocking only if instruction is received before the RD[[4]](#footnote-4). The table illustrates this:

| **CA Event** | **Mandatory / Voluntary** | **CMH-TF Proposal: CA events for which participation should lead to a blocking of the underlying security** |
| --- | --- | --- |
| **BIDS** | **VOLU** | Yes, blocking |
| **BMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **BPUT** | **VOLU** | Yes, blocking |
| **CERT** | **CHOS** |  Yes, blocking |
| **CMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **CONS** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **DSCL** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **DTCH** | **VOLU** | Yes, blocking |
| **EXOF** | **VOLU** | Yes, blocking |
| **EXOF** | **CHOS** | Yes, blocking |
| **EXTM** | **CHOS** | Yes, blocking |
| **INTR** | **CHOS** | Yes, blocking |
| **LIQU** | **CHOS** | Yes, blocking |
| **MCAL** | **CHOS** | Yes, blocking |
| **MEET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **MRGR** | **CHOS** | No RD => blocking |
| **OMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **OTHR** | **CHOS** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **OTHR** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **REDM** | **CHOS** | Yes, blocking |
| **TEND** | **VOLU** | Yes, blocking |
| **XMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |

* ***There should be a single set of messages for blocking.*** For those CA events that may be subject to blocking, messages are sent in an automated way by the account service provider to confirm the blocking and unblocking (see table).

* **Reporting/notifications of the blocking is done via settlement messages in T2S markets** i.e. the settlement message indicates that it has been transferred to a restricted account. The blocking of the security may also be reported in the CA notification message

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| **ISO 15022 Message Type**  | **ISO 20022 Message Type** | **Purpose** |
| **MT544**  | sese.025 | A securities settlement confirmation message may be issued by the account servicer following the blocking of the securities which will identify the blocked ISINs. |
| **MT546** | sese.025 | A securities settlement confirmation message may again be issued by the account servicer following the unblocking of the securities which will confirm that securities have been unblocked. |
| **MT564** | sese.033 | A CA notification may be issued by the account servicer which will identify the blocked ISINs using the code BLOK. |

**Annex 2: Current market practices for blocking of securities**

* Spain - For all events where a client election is required, financial intermediaries need to block the instructed position in T2S. Accordingly there are no corporate actions in Iberclear for which participation should lead to a blocking of the underlying security in another account. Participants have to move their holdings with restrictions to a sub-balance in the same account in order to participate in the voluntary corporate action. Once the securities are in that sub-balance, participants cannot use them for securities movement or settlement, so it is similar to a blocking. Furthermore, movement of securities is done by Iberclear with the communication of a semt.013 message. Finally, participants have to send MT565 to the issuer’s agent in order to participate in the voluntary corporate action, as well as transfer their holdings to a specific sub-balance identified in the CA announcement as it was described before
* Portugal - The blocking of elected positions in T2S take place after the market instruction is accepted and are instructed by Interbolsa. For tender offer events in Euronext, position needs to be surrendered to a specified Euronext account
* Finland - blocked securities are not transferred to another securities account or sub account. Instead, instructed securities are kept as blocked on the same account to which the instruction to participate in the event was sent. Please correct the table above.
* Germany - When ongoing tenders or exchange offers take place, the securities are moved to Cascade (CBF system) on a daily basis, while for capital increase events, securities and cash are normally blocked and sent to the CSD and paying agent respectively close to the market deadline of the event.
* Switzerland - Swiss market securities are moved to SIX SIS webmax platform on ongoing basis (if ongoing events i.e. ongoing tenders/exchanges) or at market deadline date, cash holding is taken from the custodian’s account with Six SIS.
* Austria - Austrian market holdings (securities and/or cash) are moved to OEKB close to market deadline date.
* ESES markets - All voluntary events will require transfer of securities to the agent in order to participate in the CA event. Some mandatory events cannot be processed STP via T2S due to technical limitations in the market, for example mergers (MRGR) where the ratio is unknown at announcement and cash dividends (DVCAs) on US securities (due to tax reasons) cannot be processed without manual intervention by the custodian.
* Nasdaq CSD markets (EE, LV, MT) - Nasdaq CSD blocks securities for elective events, but doesn’t transfer the securities to another account, in T2S from position available (AWAS) to blocked (BLOK).
1. As indicated by the Completeness Indicator in the CANO message specifying whether the details provided about an event are complete (COMP) or incomplete (INCO). [↑](#footnote-ref-1)
2. Please refer to the column entitled ‘SMPG Guideline Status’ in Annex 2 of the CMH-TF [Report on Corporate Actions](https://www.ecb.europa.eu/paym/initiatives/shared/docs/d5f88-ami-seco-2018-06-22-item-04.1-cmh-tf-report-on-corporate-actions.pdf) for the current status on SMPG Guidelines for populated ISO 20022 messages for CA events deemed relevant to Eurosystem eligble debt instruments. [↑](#footnote-ref-2)
3. Blocking refers to a period of time in which an investor's securities are prevented from being accessed. [↑](#footnote-ref-3)
4. Some event types (e.g. DSCL or CONS) exist with or without record date. So, the table with the list of CA Events cover most of the cases but that there are exceptions (blocking depends on the presence of a record date). [↑](#footnote-ref-4)