



**CORPORATE ACTIONS AND  
ISO 15022 STANDARDS:**

**U.K. & Ireland  
MARKET PRACTICE**

*Release 2001*

*Issued by CRESTco Limited on behalf of the U.K. and Irish Market  
Practice Group*

**October 2001**

# U.K. and Irish Market Practice Templates for Corporate Actions

## **INTRODUCTION**

The UK and Ireland Market Practice Group are committed to trying to find and ensure common solutions for the implementation of ISO 15022 standards. The following document is the result of work and analysis via a cross section of the market. This document is, wherever possible, in line with the worldwide market standards but, as these standards are still being finalised, some differences may occur.

The companies represented and instrumental in the work and analysis undertaken on the subject are:

AIB Security Services  
ABN Amro  
Bank of Ireland Securities Services  
Citibank  
Cogent  
Credit Suisse First Boston  
CRESTCo  
Deutsche Bank  
Goldman Sachs  
HSBC  
JPMorgan Chase  
Merrill Lynch International  
Morgan Stanley Dean Witter  
Northern Trust  
SWIFT  
UBS

The aim of the document is to try and ensure consistent market standards for all market participants from the central depository to the underlying clients and all stages in between.

This document talks about flows of messages and the elements within them but does not choose a particular message carrier and its ways of working. This is to ensure the document represents market practice for the new standards rather than a particular message type. However, the group singled out SWIFT as a potential carrier and stressed that SWIFT should be able to carry the messages in the way envisaged in this document.

The working party split itself into two parts so that one group could concentrate on the basic events and the other on claims and transformations. Both groups' findings are included in this document.

Views on the content of the document are welcomed, and should be addressed in writing to Michael Kempe or Becky McGrath at CRESTCo Ltd (or emailed to [Michael.Kempe@crestco.co.uk](mailto:Michael.Kempe@crestco.co.uk) or [Becky.Mcgrath@crestco.co.uk](mailto:Becky.Mcgrath@crestco.co.uk)) who will circulate them to the group members. Changes that are accepted by the group will be added to the document.

## **Part one – corporate actions**

### **Section One: Introduction**

The group felt that it was important to separate all corporate actions into categories of event and look at each of those event types in relation to ISO 15022 standards. Consequently, corporate actions were divided into three separate groups:

- mandatory events (stock and / or cash);
- mandatory events with options; and
- voluntary events.

Each of these categories were then split into two subsections so that for each type of event:

1. message flows in terms of announcements, elections, entitlements and confirmations could be agreed upon; and
2. the data elements associated with those flows could be standardised.

It was decided that the subjects of market compensations or claims and transformations would be dealt with by a second market practice group and part two of this document deals with these subjects.

Part one of this document aims to look at all aspects of the three separate categories defined by the group as well as some other considerations relating to messaging. For example the first part of this document also includes a further section that discusses takeovers and rights issues in more detail as these two events were noted as ones that needed particular attention. Both events are highlighted as those that needed worldwide standardisation.

## Section two: Mandatory Events

### Cash Events

Mandatory cash events are those defined as events where, the shareholder has no option or ability to take action and a distribution of cash will take place to him at a specified time. Events that are included in this category are:

- cash dividends;
- interest payments;
- mandatory redemptions;
- mandatory schemes of arrangement;
- mandatory capital repayments; and
- liquidations

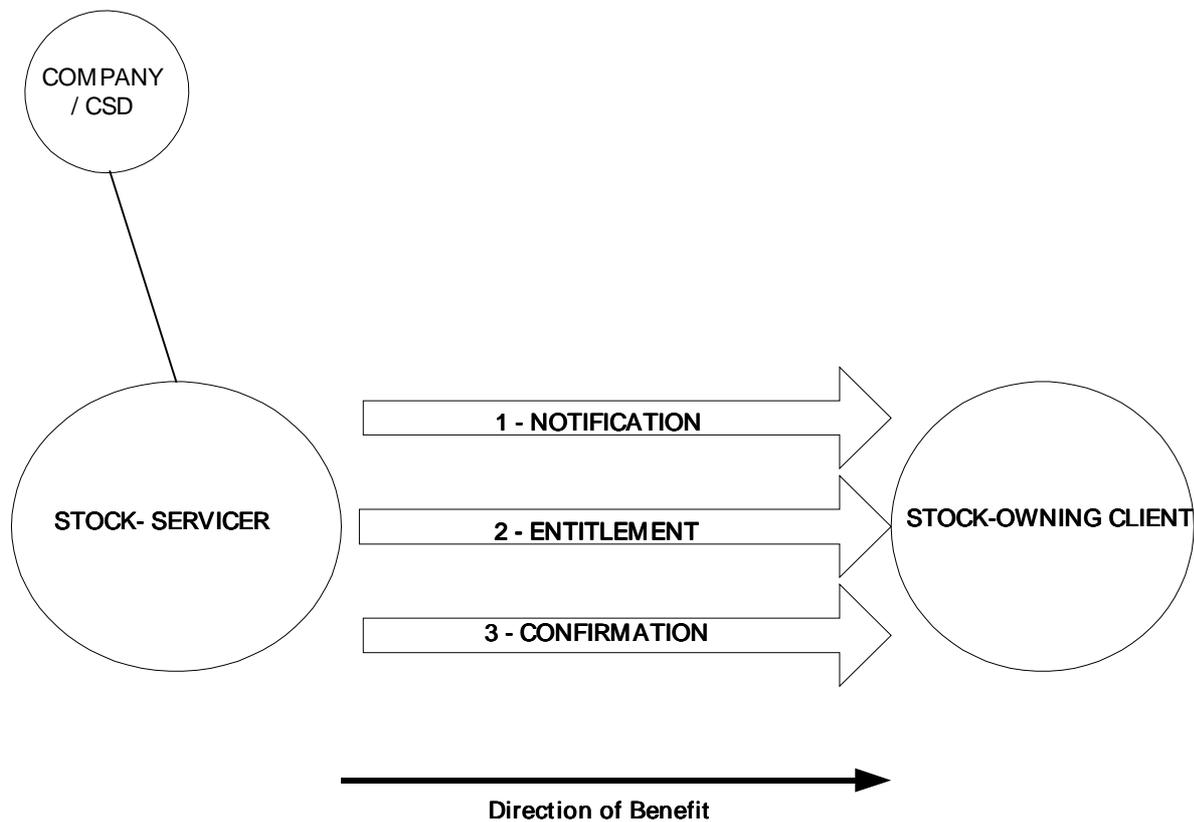
### *Message Flows*

The group decided upon the best format for flows of information, and the following was agreed to be best practice;

1. *A preliminary announcement (optional)* – as soon as an announcement is made a message should be sent (on an optional basis) notifying clients or shareholders of the corporate action. If full details are not available immediately then a preliminary message should be sent.
2. *A preliminary but incomplete announcement (optional)* – this message would only be used if data being sent was accurate and it was known that more data was needed. It would be sent as soon as information became available.
3. *A full announcement (mandatory)* – within 24 hours of full information regarding the event being known a complete message with the data elements listed below should be sent. It should be noted that a full announcement is one where all data available that is needed for the event is sent. For example, in the case of a scrip dividend, a full announcement would be sent with the scrip option even if the exact ratio was still unavailable. When the ratio was known the message would be replaced with an updated version.
4. *An entitlement message (mandatory)* – either on the ex date, record date, both or at another time (depending on agreements with clients) an entitlement message should be sent with the client's expected entitlement and the data elements listed below. It is worth noting that whether this message is sent is dependent upon the client, as some clients do not wish to receive an entitlement message.

There was discussion about whether it was necessary to send this entitlement message if the entitlement date was very close to (e.g. the previous day) to the payment date and, hence, the confirmation message (see below). It was agreed that the market norm was that it should be as the information, particularly the eligible balance (see below), shown on the entitlement message did not necessarily appear on the confirmation.

- 5. A confirmation message (mandatory) – finally, a confirmation should be sent and the timing of this message depends upon individual contracts with clients. Multiple messages may be sent when benefits are not distributed at the same time.



**For All Mandatory Distributions**

*Data Elements*

The group discussed elements that were necessary for the messages above to be processed effectively and decided on the following pieces of information:

The Announcement Message

To be processed effectively by the market any announcement requires the following elements:

- **An event indicator.** The part of the message that specifies what type of corporate action is being processed.
- **Corporate action reference.** A unique reference given to the particular event specified. All messages relating with the corporate action should quote this reference.
- **A mandatory, mandatory with options or voluntary indicator.** This indicator shows the recipient whether choices will be available and whether there will be a default.
- **A status** indicating whether the message contained complete or preliminary data.
- **The underlying security** including a description<sup>1</sup>.
- **Account information.** The account information could include a single account reference, more than one account for a client (if applicable) or an indication that the message refers to all accounts being serviced that client. Whether the message is sent only to clients with holdings or to all clients was deemed to be a matter for firms and their clients. Where tax details vary per account multiple account notification may not be applicable.
- **Record date.** It was agreed that it should be standard practice that the record was struck as of close of business on the day specified. If a particular event struck a record at start of business then it was the responsibility of the sender to mark the record date as the day before or draw attention to the anomaly in some other way.
- **Ex date**<sup>2</sup>.
- **Payment date.** This is the date that the event's consideration is due to be distributed upon as announced by the Issuer.
- **Payable Date.** This is the date that the event's consideration is due to be distributed by the Servicer (*This is not market practice but added to recognise the needs of custodians*)
- **Dividend type.** It was agreed that the dividend types required to be sent were:
  - **interim;**
  - **final;**
  - **regular; or**
  - **special**<sup>3</sup>;
- **Currency of distribution**
- **The dividend rate, interest rate or ratio** as appropriate
- **Net or gross indicator**
- **The local tax rate.**
- **The foreign tax rate** (both local and foreign only to be included if applicable).
- The possibility of a **narrative.** The group strongly recommended that narratives should not be sent if at all possible but if a great deal of extra information was needed, could be included in the message. However, in these cases the group felt that a separate narrative message (such as SWIFT's MT568) could be sent rather

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<sup>1</sup> The group discussed dual listed securities and the problems created by securities in different countries (or listed in different places within the same country) having the same ISIN. The group strongly suggested that if an ISIN covers securities that are dual listed for a single corporate event separate ISINs should be applicable. Where this is not the case the message needed to include a local identifier in the message. The group is awaiting ANNA before a decision can be made in market practice.

<sup>2</sup> It was agreed that special ex date would not be included as part of the message as this could be automated from the ex date and there was no need to include it on the message. It is worth noting that ex date is agreed to be applicable from start of business on the day specified.

<sup>3</sup> It should be noted that the group believed a further type 'supplementary' occurred in New Zealand.

than including narrative in the announcement. Any extra message of this type would need to be linked to the announcement message both in terms of corporate action numbers and cross referencing of the actual messages. The advantage of using a separate message is that it allows straight through processing of the announcement.

The rule agreed surrounding narratives is that if a narrative is known at time of sending the announcement then the narrative should either be sent on the message or the message should forward link to indicate a narrative is about to arrive. In the case of SWIFT messages, this means that the MT564 would forward link to an imminent MT568. The MT568 should be sent immediately. Where narrative was not yet defined a new message should be used (e.g. an MT568) when details are available, this would link back to the MT564. No forward linking should take place on the announcement.

- **Fees and commissions** (if applicable).

#### The Entitlement Message

It was decided that the entitlement message should include all the data in the announcement message described above, but also some extra elements were needed. (As mentioned above the exact timing of the message was considered to be dependent upon the relationship with the client.) The extra fields required were:

- **Message / Entitlement Reference.** This is a new unique specific reference for this message only.
- **A link** to the previous message.
- **The eligible balance** within the account (or accounts) when the entitlement was struck. If all accounts were marked this balance would be the sum total of the stock held in those accounts. It is worth noting that within SWIFT messages it is possible to specify different types of balances (and is market practice to do so) but the balance required is the balance that corresponds to the entitlement. Eligible balance on the entitlement message should include all elements that will lead to an entitlement for the receiver. This will include all holdings, trading positions, stock loans etc. If the balance is not to include all elements then this should be clearly detailed in the service provider / client Service Level Agreement. It was noted that this balance could change after the message being sent due to late instructions or other unknown influences.
- **The gross amount** expected.
- **The tax amount** to be deducted (this may be multiple fields). The tax amount should always be shown, even if zero.
- **Charges/fees** deducted/added.
- **The net entitlement** amount. These four elements are still a subject of much debate at the worldwide group.
- **The payment date** of the cash.
- **The payable date** (optional)

### The Confirmation Message

Again, all data included in the entitlement message<sup>4</sup> (**except eligible balance**) must be included in the confirmation message e.g. net amount, tax amount etc.). These extra fields are:

- **The confirmed balance.** This is different to the eligible balance and refers only to that part of the eligible balance that is being referred to in the confirmation message. It is likely that there will be many confirmation messages but only one entitlement message. This is due to different parts of the entitlement being paid at different times.
- **The cash account** to which any monies are being paid (whether this field is necessary is dependent on the relationship with the client).
- **The posting date** of the cash.
- **The value date** of the posted cash.
- **The method of payment** (e.g. cheque, BACS, CREST). This field is optional
- **FX rate** – if an FX is being actioned on behalf of the client the FX rate should be included<sup>5</sup> – used if an FX is being actioned by the issuer prior to distribution.
- **The distributed currency.**
- **The net amount** for the client.

### Replacement messages

The group agreed that as soon as any change or update needs to be applied to the details of a corporate action then a replacement or new message needs to be sent. The rules surrounding this area were agreed to be<sup>6</sup>:

- If the entitlement message has yet to be sent then any announcement can be resent using the same corporate action reference i.e. the message is replaced. The message should (if possible) clearly indicate the field(s) that has (have) changed.
- If the entitlement message has been sent the corporate action must be cancelled and a new event set up. However, the group agreed this was slightly subjective. A small change in payment date may not necessitate this action but a change in any other date or changes in other key details would do so.

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<sup>4</sup> It should be noted that over time it is envisaged that repeating all data will not be necessary.

<sup>5</sup> Full details of any FX should be sent via a separate message which should be linked to the corporate action

<sup>6</sup> Although this is the suggested practice the group acknowledged that existing relationships where this is not the case will continue for some time.

## **Stock Events**

Mandatory stock events are those defined as events where, the shareholder has no option or ability to take action and a distribution of stock will take place to him at a specified time. Corporate actions included in this category are:

- Bonus issues or capitalisations
- Consolidations / Reverse Stock Splits
- Sub divisions / Stock Splits
- Mergers
- Pari Passu
- Rights Issue Distributions
- Renominalisations
- Mergers
- Redenominations / Name change (although this is recognised as less of a distribution and more of an data change)
- Enfranchisements
- Stock Dividends

## *Message Flows*

The group agreed that the flows identified on page 5 for mandatory cash events were exactly the same as those to be used for mandatory stock events.

## *Data Elements*

### The Announcement Message

The group agreed the following fields for the announcement/notification for a mandatory stock distribution:

- **Corporate action number.**
- **Function of the message.**
- **Corporate action event indicator.**
- **Mandatory, mandatory with options or voluntary indicator.**
- **Processing status.**
- **Underlying security.**
- **Account information** (with the same scenarios and providers as for the cash dividend).
- **Record date.**
- **Ex date.**
- **Payable date** (optional).
- **Payment date.**
- **Narrative** (if applicable).

- **Option for fractions** if applicable. This should only be sent if cash will be distributed in respect of any fractions.
- **Currency for fractions if applicable.**
- **Disperse security.** This is the security that will be received due to the event.
- **Ratio.**
- **Local tax rate** (if applicable).
- **Foreign tax rate** (if applicable).
- **Price of fractions** (if applicable).
- **Narrative** (if applicable).
- **Fees/charges** (if applicable).

#### The Entitlement Message

The group agreed that for the entitlement<sup>7</sup> message relating to a mandatory stock event all the fields sent in the announcement must be sent plus:

- Entitlement / Message reference.
- The eligible balance as of when the message is sent / entitlement is calculated.
- The posting quantity.
- The payment date.
- If applicable the cash movement fields regarding amounts that are used for the mandatory cash to take account of any fractions. This cash movement fields are those that were specified earlier.

#### The Confirmation Message

The same fields as on the entitlement message should be sent plus any relevant banking details for any cash fractions but also:

- The balance. This is different to the eligible balance – see previous note.
- The posting quantity.
- The posting date instead of the payable date.

#### Replacement Messages

With regard to replacement messages the group felt that exactly the same process as used for mandatory cash events should be used.

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<sup>7</sup> As previously mentioned whether this message is sent is dependent upon each client relationship



### Section three – Mandatory events with options

Mandatory events with options are more difficult than any straightforward mandatory event as an election is needed. A large amount of time was spent discussing the election and its response and it is clear this is one of the main areas where straight through processing would reap significant rewards for the market as a whole.

A mandatory event with options is defined as an event where, if the shareholder does nothing something will occur to change the shareholders holdings in terms of securities or cash. However, the shareholder has a choice in which way he would like his holdings to be affected. Events that are included in this category are:

- Call payments; and
- Optional Schemes of arrangement.

#### *Message Flows*

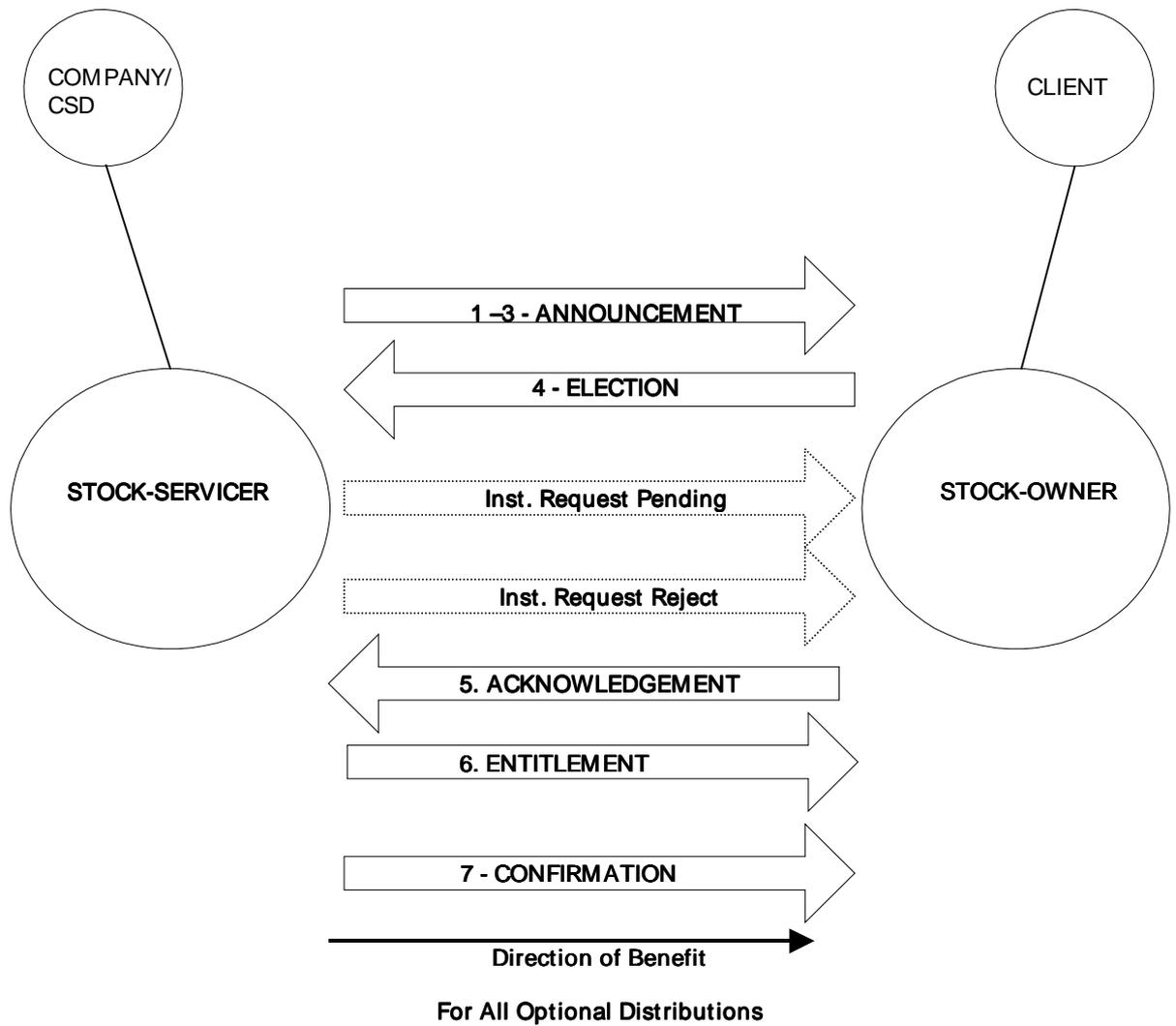
During a mandatory event that is optional more information and communication needs to take place than for a mandatory event and consequently the flows are more complicated:

1. *A preliminary announcement (optional)* – as soon as an announcement is made a message should be sent notifying clients or shareholders of the corporate action. If full details are not available immediately then a preliminary message should be sent.
2. *A preliminary but incomplete announcement (optional)* – this message would only be used if data being sent was accurate and it was known that more data was needed.
3. *A full announcement (mandatory)*– within 24 hours of full information regarding the event being known a complete message with the data elements listed below should be sent<sup>8</sup>.
4. *The election(s)* - One or many instruction messages from the client electing on their holdings.
5. *The acknowledgement (optional)*- For each instruction received from a client a receipt of instruction message from the client's representative informing the client the election has been processed in line with their Service Level Agreement. Market practice is that this message should be sent but it is up to each client and service provider to agree whether this is absolutely necessary.
6. *An entitlement message<sup>9</sup>(mandatory)* – either on the ex date, record date, or both (depending on agreements with clients) an entitlement message could be sent with the client's expected entitlement and the data elements listed below. Whether an entitlement message would be sent for mandatory events with options was agreed to be a matter between client and client representative although market practice is that it should be.
7. *A confirmation message (mandatory)* – finally, a confirmation should be sent and the timing of this message depends upon individual contracts with clients.

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<sup>8</sup> Market practice is to send a reminder message between the full announcement being sent and actual election being made.

<sup>9</sup> It is important to note that for some events (scrip dividends, for example) the entitlement message comes before the election



*Data Elements*

The Announcement Message

The group agreed upon the following fields for the announcement/notification for a mandatory with options corporate action:

- **Corporate action number**
- **Function message.**
- **Corporate action event indicator.**
- **Mandatory or voluntary indicator** – if SWIFT was used this would be ‘CHOS’.
- **Processing status.**
- **Underlying security.**
- **Account information** (with the same scenarios and providers as for the cash dividend).

- **Record date / Call Date** etc. as appropriate (this is the market election deadline date) and set by the issuer.
- **Ex date** (if applicable).
- **Payable date.**
- **Payment date.**
- **Narrative.**
- **Option Number.** Each option should be given a number to ensure straight through processing can be achieved. It is important that, wherever possible, these are in the same order as announced so that clients receive the same numbers for options from different service providers. However, clients should recognise this will not always be the case and care should be taken when electing.
- **Option Code.** This code describes at a very high level what the option is. e.g. 'cash', 'stock' or 'cash and stock'.
- **Option details.** These details should be a combination of cash and / or stock fields detailed for mandatory events above.
- **Period for elections (Agent deadline).** The period in which the client can decide upon and instruct what option he wishes to take advantage of.
- **Narrative** (if applicable).
- **Fees/charges** (if applicable).
- **Restrictions.** There was a long discussion regarding restrictions to any event. It was agreed that if there were any restrictions to an event an indication that there are restrictions must be made on the announcement message. Full details (as known) should be sent in a free text message (an MT568 for example) to explain the restrictions in more detail.
- **Issuer Default**
- **Standing Instructions** (If applicable).

#### The Election

The election message allows clients to respond to the event indicating which options they would like to accept. It was agreed that best practice was, if possible, to send one message per option per day but it was recognised this may not always be possible, particularly close to the last time for an election. The elements needed to do this are:

- **Corporate action Number.** As with all messages in the corporate action it is important for reconciliation purposes to include the correct corporate action number.
- **Function of message.** An indication that this is an election.
- **Event Indicator.**
- **Links to the announcement message**
- **The corporate action ISIN.**
- **Account Information.** This could be for a single account or all accounts.
- **Eligible Balance.** The total amount of client stock that could be elected upon, regardless of whether any elections have already taken place. This is not the number of shares the election is to be made for.

#### The instruction within this message should include:

- **A reference number** for the instruction.
- **The option number** relating to the required option.
- **The option code** (e.g. cash and / or stock).
- **Quantity of election.** This is the number of shares to be elected upon.

- **Narrative** (if applicable).

#### The Acknowledgement

An acknowledgement will be sent for each instruction received from a client informing the client the election has been processed in line with their Service Level Agreement. It was noted by the group that initially all details of the election should be copied onto the acknowledgement so that reconciliation could take place. However, the goal should be that the acknowledgement will only include a status code and reason code in the longer term. For now, the elements needed in this message are the same as the instruction above plus:

- **A status code.** Whether the instruction has been accepted or rejected.
- **A reason code. This can be optional where an instruction is accepted.**

#### Negative Acknowledgements

Although the acknowledgement is generally used as a response to an instruction it can also be used when no instruction has been received. In this way it can be used to inform the client how much stock will apply to the default or any standing instruction due to no instruction being received before the agent deadline. In both cases (default or standing instruction) the message should only be sent once the deadline for instructions has passed.

#### The Entitlement and Confirmation Messages

The elements in this message should, in the short term, be the same as for a mandatory event except that there may need to be a number of repeating entitlement blocks for stock and / or cash depending upon the election(s) opted for by the client.

**Section four – Voluntary Events**

The group discussed voluntary events and in particular takeovers (see Section 6). It was agreed that they should be processed in the same way as mandatory events with options except that different timings may need to be taken into account and that the event will be marked voluntary rather than mandatory with options. For example, a rolling event may need to take into account a number of separate closes and extensions. Each time this occurs a replacement announcement should be sent.

By the very nature of voluntary events it should be noted that there can never be a default.

There was a great deal of discussion regarding regular events such as warrant conversions. It was agreed that if the close was at least three months apart a new corporate action and associated messages should be raised and sent.

Where the close is more regular than every three months the group could not reach agreement as to whether a new corporate action was to be set up each time or whether the client should be aware through standing data relating to the security. However where it was the final close market practice would be to send one.

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## Section five – Takeovers and Rights Issues

### Takeovers

Takeovers are a voluntary event where on going updates are necessary.

It was agreed that replacement announcement messages would be sent each time there is a change in benefits or on a change of close, i.e. after the announcement of:

- **First close date;**
- **Second close date;**
- **Final close date;**
- **Lapse Date;**
- **Unconditional date;**
- **Wholly unconditional date; and**
- **Start of compulsory purchase<sup>10</sup>.**
- **End of compulsory purchase**

It was agreed that the events stay voluntary until the end of the compulsory purchase period when it moves to the mandatory with options state.

The group felt that the possibility for the mix and match code word as one of the options was necessary and that details of the mix and match would then be sent in a free text message such as SWIFT's MT568.

The group also agreed that two other flags were necessary to be sent on an announcement:

- **a withdrawal allowance flag; and**
- **a changes to the elections allowed flag.**

Otherwise the group were happy that the data used for mandatory with options would also be used for voluntary.

It should be noted that SWIFT are currently undergoing a full review of takeovers and tender offers.

### Rights issues

After debating the subject the group reached the conclusion that the separate components of a rights issue should be treated as separate events. However, there was general agreement that whilst this is best the way forward it should only be implemented if all countries agree to follow suit. The two main events are:

1. **The distribution of the nil paid rights.** This is a mandatory event (much like a bonus issue) and would follow the same flows and data elements as for a mandatory event.
2. **The Call Payment.** This is a mandatory with options event for which the underlying security is the nil paid right.

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<sup>10</sup> It should be noted that not all takeovers have a compulsory purchase period.

It was agreed that the two initial notifications to the events should be sent immediately after each other and the call payment should be linked back to the rights issue.

The group agreed that this was the best solution but, could only work if SWIFT or any other message provider made this a worldwide standard and it was. As rights issues occur in many countries it is important for global players that a single solution is found for all countries eventually<sup>11</sup>.

The reason for the split is twofold

1. The events are separate types and follow separate rules
2. The ISIN affected in each case is different and so, the events must be separate.

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<sup>11</sup> The World wide market practice group recognised that rights issues could be processed as one or two events and that uniformity was not yet possible. It recommended new and clear code words for the events that would make it easier to note whether the events were being processed as one or two separate events.

## **Section six – Other**

### **Restrictions**

As already mentioned is likely that the detail of what restrictions apply to an event will be included in narrative fields. However, code words for the fact that restrictions do apply should also be put into narrative so that part straight through processing can occur. These are:

- Cond:
- WORK STILL TO BE DONE IN THIS AREA

### **Date prepared**

The group discussed whether a 'date prepared' timestamp should be put on any message sent. It was felt that this would not be necessary as most messages have their own sent timestamps and audit trails.

### **Time zone identification**

In some case there appears to be confusion over what time zone was being referred to in messages, particularly surrounding last time for elections. After much discussion it was agreed that it was the responsibility of the service provider to always use the same time zone and include what it was in any Service Level Agreement.

### **Swift message sequence *d* and *e***

The market practice for these fields is that if an element is common across the whole event it should be included in sequence D, but if it differs between options it should be included in sequence E.

### **Reminders**

Throughout the process of an optional or voluntary event Service Providers may wish to remind their clients that stock is still to be elected upon. This should be completed by sending the announcement message again with code word Reminder and including the 'Unelected Balance' and 'Elected Balance' as well as the 'Eligible Balance'

**Section seven – Proxy Voting**

To be discussed and agreed.

## **Part two – claims and transformations**

It should be noted that Part Two is purely a proposal put forward by the UK and Ireland market Practice Group, and as yet has not been incorporated into the worldwide market practice. Work is required on additional code words to ease the process described below. It is recommended that members speak directly to SWIFT for any other additional code words that are deemed necessary.

### **INTRODUCTION**

#### **Background**

The task given to the group was to discuss a UK market practice for the processing of corporate action claims resulting from late settlement of transactions, and transformations resulting from corporate actions affecting open transactions using S.W.I.F.T. ISO15022 messages. The group was to discuss possible solutions, and present their findings in a final report before the end JUNE 2000.

Companies represented in the discussions are:

- *C.S.F.B.*
- *Citibank*
- *Northern Trust*
- *S.W.I.F.T.*
- *CRESTCo*

#### **Procedure**

The procedure adopted by the group was to split the task into its four possible scenarios concerning claims and transformations and discuss, namely:

- Mandatory Claims
- Optional Claims
- Mandatory Transformations
- Optional Transformations

It was accepted that the use of the new S.W.I.F.T. ISO15022 messages should, wherever possible, be adopted to keep in line with the new message formats being adopted for corporate action messages. However, it was noted that by using these messages they would be used for something other than their original intended use. It was therefore agreed that the messages should be used if possible, but other formats were to be assessed if needed. The group initially looked at claims processing, its message flow, type and content and then progressed to transformations. This document makes reference to elements of messages rather than particular S.W.I.F.T. tags.

Other work already done in these fields were looked at to try and minimise repetition. The work looked at was the E.C.S.D.A. (European Central Securities Depositories Association) report on Cross Border Corporate Actions and Event Processing, which includes claims and transformations.

The following are the findings of the group, discussed at meetings during April – June 2000.

## CLAIMS

### Definition

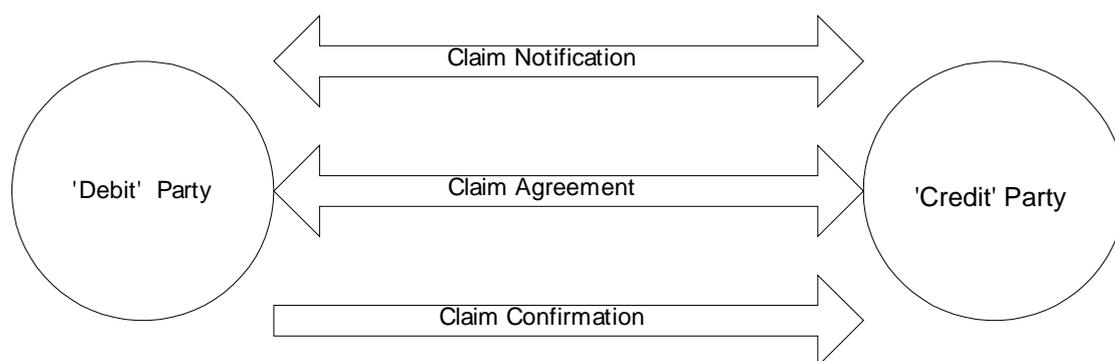
A claim (or market compensation) arises when a party who is contractually entitled to receive a benefit is not on the register as at record date for a benefit distribution and consequently does not receive benefit directly from the company.

### Mandatory Claims

A claim is due between the 'credit' party – the party due the benefit but not on the register on record date, and the 'debit' party – the party having received the benefit when not entitled to it. Once a claim is necessary one of the parties needs to start the process of paying the benefit. This begins by contacting the counterparty. It is immaterial which party initiates the claim, provided that the claim is agreed by both parties. Who raises the claim on either side of the claim is determined by the appropriate Service Level Agreement (SLA) by market country. Once agreed, the claim needs to be paid, on (or as soon as possible afterwards) Payment date. The 'debit' party pays the 'credit' party the due entitlement. For the scenario of the claim being raised directly between the buyer and seller, where no account relationship exists between the parties, the message flow should therefore follow the following format:

For the scenario of the claim being raised by the account servicer (or CSD), the message flow will follow the same format, with the account servicer being responsible for the sending of all messages to both parties involved in the claim. Either party raises the claim, informing the counterparty of either the benefit due or owing. The message needs to contain:

- references to the related underlying transaction/s
- details of the corporate action creating the claim.
- an identifier identifying the message as a claims notification message, to differ it from other



Note: The Claim Notification and Claim Agreement messages are bi-

- corporate action messages
- cash amounts and/or stock quantities being claimed

One or more transactions may be referenced in the 'claim notification' message, but all transactions must be related to the same underlying security (and corporate action). The participant details in the claims message must be the same as the participant details of the associated transaction(s) creating the claims. It is recommended a claim is raised within 7 days, but a deadline of one year is advised for the time period in which it is feasible to raise a claim.

A 'reminder' message may also be sent, being the same message with a function of message as 'reminder'. It has the purpose of prompting the counterparty to respond to a claims notification message if it is thought progression is slow. No definite recommendations on times for reminder messages is thought necessary.

It is recommended the S.W.I.F.T. ISO15022 MT 564 Notification message be adopted for this use. It was noted that this message is not designed specifically for this use, but can hold the information required and can be appropriately adapted. We understand that a 'claims notification' message identifier is to be proposed by S.W.I.F.T. shortly. The message will mimic the corporate action MT564 Entitlement message sent to the debit party, with the following amendments:

- A claims message identifier
- A cash and/or stock movements block containing the benefit due (or owed) as a result of the underlying transaction/s
- Reference/s to the underlying the transaction/s

The message can also be used to cancel a previously raised claim, if found to be in error. This remains consistent with the S.W.I.F.T. cancellation protocol.

Upon receipt of a 'claims notification' message, the counterparty must check and respond to the sender agreeing, or disagreeing, with the existence and the details of the claim. This should be done as soon as possible after the receipt of the 'claims notification' message. The message needs to be linked to the 'claims notification' message and deny or agree consent to details of the claim and give details of the account to be debited or credited (depending on the senders role in the claim). If the 'claims notification' message or its contents are rejected, for whatever reason, a rejection message must be returned, and details of the claim (or non-existence of) dealt with manually. This may result in the claim being raised again, containing the correct details of the claim. The sending of a rejection must have the affect of cancelling the claim for both parties. The message requires 3 functions, namely:

- Claim Agreed
- Claim Rejected (Reasons code)
- Claim Agreed, protection required

It is recommended that a S.W.I.F.T. ISO15022 MT567 Status and Processing Advice message be used. Again, it is pointed out this message is not specifically designed for this use, but has been adapted to fit the circumstances.

It is recommended that this message is sent within 24 hours after receipt of the claims notification message.

The message can also be used to cancel a previously sent message, if found to be in error. This remains consistent with the S.W.I.F.T. cancellation protocol.

Assuming successful agreement of the claim, a 'claims confirmation' message is then sent between the 'debit' party and the 'credit' party on (or as soon as possible after) payment date of the underlying corporate action. This is done by the raising of one or more settlement transactions to deliver stock between the 'debit' party to the 'credit' party, or the sending of a payment instruction between the 'debit' party and the appropriate cash account servicer. The timing of the confirmation message is determined either by confirmation of settlement of the transaction raised to transfer stock from the 'debit' party to the 'credit' party (in the case of a stock claim) or the value date of the cash payment instruction raised to deliver cash between the two parties. As with corporate action

confirmation messages, the benefit may be paid in two or more legs, in which case separate confirmation messages are sent upon each payment.

It is recommended that the settlement transactions, raised between the 'debit' and 'credit' parties to settle the stock claim, are matched offering more control and easier reconciliation between the two parties. The message should contain

- references to the relating claims notification message, the agreement message and the underlying related transactions causing the claim.
- account details of the benefit paid, and details of the underlying corporate action via which benefit has been paid.

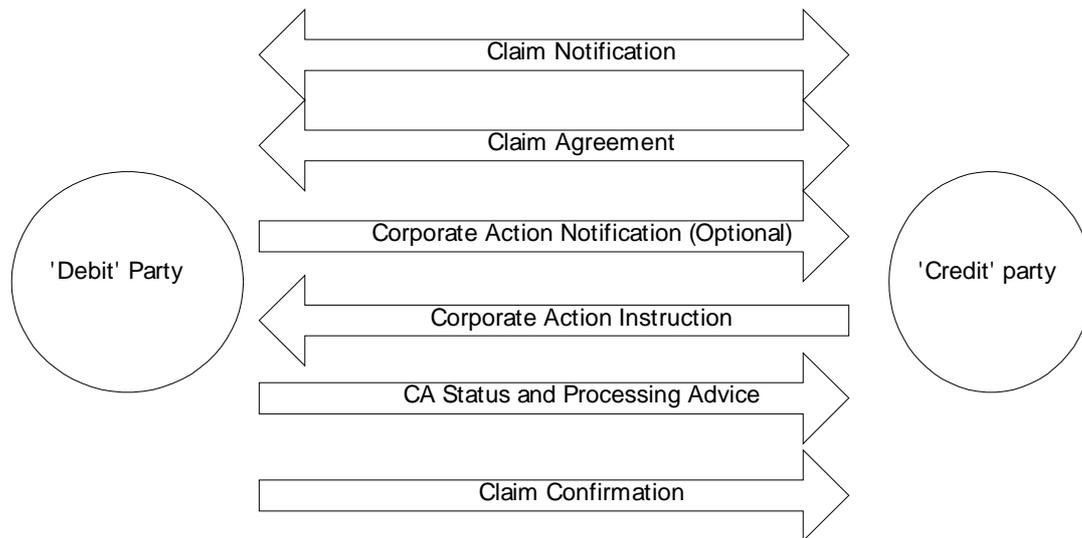
It is recommended a S.W.I.F.T. ISO15022 MT566 Confirmation message be used for this message. Again, it is pointed out this message is not specifically designed for this use, but has been adapted to fit the circumstances. The message will mimic the MT566 corporate action confirmation message with the following amendments:

- A claims message identifier
- References to the underlying transaction/s, claims notification and agreement message
- References and details to the underlying corporate actions
- Details of the benefit paid to the 'credit' party.

### **Optional Claims**

When developing a model to accommodate optional claims, a similar message flow and protocol to mandatory claims was used in an attempt to reduce the need for new types of messages. The underlying difference between the optional claim and the mandatory claim is the 'credit' party must have the chance to elect a preference of benefit before any appropriate deadline date. It is the obligation of the 'debit' party to provide protection for the 'credit' party. If no election is made, for whatever reason, it is the obligation of the 'debit' party to elect the default option, payment for which, if any, is due once benefit has been received by the 'debit' party.

It is proposed the message flow will follow the format:



Note: The Claim Notification and Claim Agreement messages are bi-directional

1. As with the mandatory claim, the claim can be raised by either party involved in the claim. A claims notification message is sent by either party to the counterparty. The message mimics the corporate action Notification messages, with:
  - references to the underlying transaction/s
  - details of the corporate action, including the related options
  - a claims message identifier
2. It is recommended a Swift ISO15022 MT564 message is used. It will follow the MT564 corporate action Notification message with the following differences:
  - references to the underlying transaction/s
  - a claims message identifier

There are no entitlement calculations in this message, unlike the mandatory claim notification message.

The counterparty agrees to, or rejects the claims notification with a claims agreement message. This is the same agreement message used for mandatory claims (MT567 – see above).

*The following messages mimic the mandatory with options/voluntary corporate action message flow, using corporate action messages with the additional of claims message identifiers.*

3. Assuming an agreement of the claim, the 'debit' party notifies the 'credit' party of details of the corporate action for which protection has been made available. This step is necessary due to the 'credit' party, if having raised the claim, being previously unaware of the corporate action details, and any specific changes to deadline dates imposed by the 'debit' party. It was agreed that this message should be optional, as agreed between the two parties, to reduce repetition of corporate action information and to save on message costs.
4. Before any deadline date, the 'credit' party elects on the corporate action by sending a corporate action instruction message to the 'debit' party. The message requires references to the corporate action notification message only. This message is repeatable and may be cancelled or withdrawn (where available).

5. The 'debit' party responds to the instruction with a corporate action status and processing advice, advising on the progress of the instruction. The message references both the corporate action notification and instruction messages.
6. On payment date, the 'debit' party advises of payment of benefit to the 'credit' party with a claims confirmation message, referencing the corporate action notification message and all instruction messages.

Confirmation of payment of the benefit is made, as with the mandatory claim, on or after payment date, once the elected benefit has been paid. It will only contain references to the successful election notification and agreement messages. A settlement message (MT541, 543) is used to exchange the fully paid benefit to the 'credit' party in return for payment once benefit has been received by the 'debit' party.

## **TRANSFORMATIONS**

### **Definition**

Transformations are the converting of open transaction settlement details as a result of a corporate action on the settling security in which the security details are changed. This replaces the need for settling participants to a trade to delete the original settlement transaction and re-input.

### **Mandatory Transformations**

A mandatory transformation will occur when a mandatory corporate action results in the details of a security changing. Any open transactions in this security are transformed to show settlement details corresponding to the changes made to the underlying security. It may be the case that two or more out-turn transactions are created as a result of a transformation, but typically, one transaction is transformed into one other transaction.

When analysing how a message flow for transformations should occur, it was agreed that a transformation relates closer to the underlying transaction, than the affecting corporate actions. As new settlement details are required to be given, settlement messages should be used for transformation. Again, it is noted no S.W.I.F.T. ISO15022 messages have been designed for this exact message use, and any messages used in this field will have to be 'adapted' for this use.

Once a corporate action has changed the details of a security, it will be the responsibility of the CSD (CREST) to inform the principal participants to the transaction of details of the out-turn transaction/s. A transaction will only be transformed if it is matched at the CSD and is of transaction type:

- Delivery (a DvP or FoP trade between two CSD members)
- Own Account Transfer
- Stock Loan
- Stock Withdrawal
- Claim
- Stock Loan Return
- Delivery by Value Return
- Transfer to Escrow
- Transfer from Escrow.

One message per out-turn transaction will be sent by the CSD to participants of the trade informing of the new details of the transaction/s. The message will only contain details of the out-turn transaction that have changed, and not repeat information that has not been changed by the transformation.



Transformations take place until 10 days after the security's End Date. If security remains the same, transformation takes place on transformation date only.

Details of the fields found in a settlement transaction that can change during a transformation and may therefore be included in the transformation message are (taken from the CREST Automatic Transformation white book 1998, and may differ according to market):

- Transaction ID (for each new out-turn transaction)
- Transaction Reference (set to blank)
- Transaction Report Marker (changed to 'duplicate' copy sent to RIE and/or SFA, if reported)
- Transformed Transaction ID (Transaction ID of transformed trade)
- Transformed Transaction Reference (Transaction Reference of transformed trade)
- Linked Transaction ID (set to blank)
- Linked Transaction Reference (set to blank)
- Stampable Consideration (pro-rated if more than one out-turn transaction)
- ISIN (resulting from corporate action – may stay the same)
- Quantity
- Special Condition, Trade Price, Trade currency (set to blank)
- Consideration
- Movement type, currency and Payment type (currency may change due to redenomination or an out-turn being in a different currency)
- Transformed Corporate Action ISIN (ISIN of security that has been transformed)
- Transformed Corporate Action Number (relating to the corporate action creating the transformation)
- Transformed Corporate Action Option (Number of benefit option used in the transformation process)

In assessing the possible messages for use for the transformation message, the two options discussed were an MT548 and an MT578. It was agreed an MT548 Settlement Status and Processing Advice would be appropriate in message description, but was unable to contain the fields required. Therefore, the group recommends that S.W.I.F.T. review the available fields in the MT548 to include the transaction details necessary for transformations in order to allow this functionality.

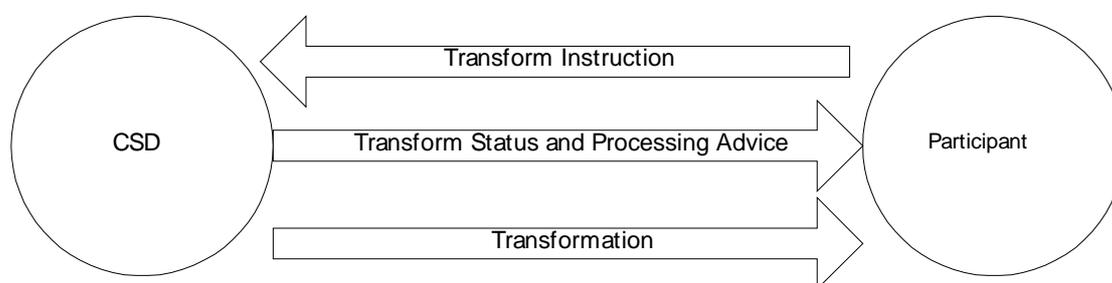
The CSD will transform trades from an agreed date (transformation date) and send details of the new transactions to the principle participants to the trades. Transformations will take place for 10 days after transformation date if the security has changed, or after close of business on transformation date if the ISIN remains the same.

It is the responsibility of the affected settlement firms to inform their underlying participants of the transformed transactions.

### Optional Transformation

As with optional claims, it is necessary for the involved participants to elect on a choice of out-turn transaction possibilities. This requires an election instruction message to be sent to CREST informing of the option chosen during the optional transformation. It is the responsibility of settling participants of CREST to gain knowledge of the underlying corporate action before electing upon their chosen option for any transformation to take place. CREST will respond to this election with an appropriate instruction status message informing the participant of the status of their election. It is noted that buyer protection must follow market rules and in the UK buyer protection must be supplied in writing.

The message flow for an optional transformation will follow the format:



A voluntary / mandatory with options transform instruction needs to be matched by both principals to the transaction to be transformed.

For a voluntary transformation , if no election is received by either party to the trade, the transaction will not be transformed. If only one election is made, the transaction will be transformed into the elected transaction.

For a mandatory transformation with options, if no election is made, the transaction will be transformed into the resulting default from the corporate action. Both parties to the transaction must elect the same option for the transaction to be transformed. If both parties specify options but they are different, the transaction will not be transformed and parties will need to bilaterally agree an out-turn before deleting the original election and re-electing. Using the S.W.I.F.T. messages, it could not be determined how to inform the counterparty of the differing options. It was therefore agreed that parties must agree bilaterally the option to be elected, and request S.W.I.F.T. to propose a solution to informing both parties of election choices. If either party specifically elects for the transaction not to be transformed, the transaction will not be transformed, and manual transformation will have to take place if the transaction is to be transformed.

It is recommended the S.W.I.F.T. ISO 15022 message MT565 Instruction message is used to elect upon an optional transformation and the MT567 message is used to provide the status of the instruction request. The instruction message can instruct the transformation of one or more transactions concerning the same security and corporate action. The messages will require transformation message identifiers, but will remain consistent with the corporate action election and corporate action status and processing advice messages, containing references to the underlying corporate action and transaction/s.

The instruction message can also be used to cancel a previously sent instruction, if found to be in error or in order to re-elect (if available). This remains consistent with the S.W.I.F.T. cancellation protocol.