**CA361 – Fractional Holding**

**Input From DE**

Feedback received from Daniel (DE) via email:

In the German market there are different options:
1.        The issuer allows fractions, so fractions will remain in the clients accounts.
2.        The agent accepts instructions for fractions. The banks will get payment in lieu for all fractions.
3.        Fractions are summed up and sold in the market on behalf of the clients.
If the new shares cannot be sold, there are different processes in the market.

**Input from PL NMPG**

1. If an issuer calls, say 10% of an issue with no change in nominal value, then exactly 10% has to be redeemed, no less and no more than 10%.
2. The pro-ration is applied at beneficial owner level.
3. Fractions are not allowed.
4. The CSD gathers information on beneficial owners’ holdings and applies pro-ration, rounding down to the nearest whole number or the nearest whole MINO.
5. In such a case, at aggregated level, there might be some missing instruments. Thus, those missing instruments are called from beneficial owners with the largest holdings.
6. At the end, some beneficial owners may be affected at less then 10%, and some slightly more then 10%.

*Example:*

1. Outstanding issue 10 000 000,00 FAMT with MINO of 10 000,00 (1000 units),
2. PCAL at 10%, no change in nominal value, MINO stays unchanged,
3. Redemption of exactly 1 000 000,00 FAMT (100 units with MINO of 10 000,00),
4. Outstanding issue after PCAL is 9 000 000,00 with MINO of 10 000,00 (900 units),
5. Total of 3 beneficial onwers with holdings of:

**A:** 1 090 000,00 FAMT

**B:** 5 500 000,00 FAMT

**C:** 3 410 000,00 FAMT

1. Pro-ration at 10%

**A:** 1 090 000,00 FAMT at 10% = 100 000,00 rounding down, since we cannot redeem less than MINO

**B:** 5 500 000,00 FAMT at 10% = 550 000,00

**C:** 3 410 000,00 FAMT at 10% = 340 000,00 rounding down, since we cannot redeem less than MINO

**A+B+C** = 990 000,00 – We have 10 000,00 FAMT missing

This means that additional 10 000,00 FAMT is called from B.

1. PCAL results

**A:** DBIT of 100 000,00 FAMT

**B:** DBIT of 550 000,00 FAMT + 10 000,00 FAMT = 560 000,00 FAMT

**C:** DBIT of 340 000 FAMT

**Input From RU**

Feedback from Elena (RU):

In our market (RU), we have fractional holdings for shares and funds. They were introduced in our legislation in 2001 and the law came into force from January 1 2002 (law 120 FZ dated August, 7 2001). Before that date the company was obliged to buy back fractions based on market price.

Common fractions (i.e. 1/2, 3/4 etc) may appear for shares only. For funds – only decimals are possible. For bonds or others securities appearance of fractions is not permitted and fractions may not appear after partial redemption or partial call or buy back.

The new version of the Law in joint stock companies gave the definition of fraction and determined 3 cases when fractions may appear:

* When preemption rights to buy additional shares are  executed by the shareholder (PRIO)
* When consolidation of shares takes place (SPLR).

This is a full list of cases. Fractions may be decimals or common (like ¾). The fractional parts are accounted in the client accounts in Registrars without rounding up or down. In our Central depository they are accounted with separate internal code for fractions so 2 internal codes are used for the same security – one for whole units and another one for fractions.

But fractions may not be sold at Moscow Exchange and in some foreign countries there are problems with accounting of fractions in the databases. Currently our Central depository assigns a separate internal depository code for fractional parts but ISIN is the same for full units and fractional shares.

* When collecting list of shareholders fractions and units are shown together for each shareholder (not separately).

Instructions for fractions are accepted by issuers and their agents. In December 2016 in mass media it was written that our Regulator Central Bank plans to change regulation on fractions and introduce the procedure of buying of fractions by the issuer. But we don’t know when and how this will be introduced as this question is under discussion in the market.