

APAC CA WG Meeting Minutes – 23th Feb 2016

Time: 2 – 3pm SGT

Attendees:

Nathalie Cheng	Citi
Phoebe Chng	Clearstream
Vicky Yiu	HSBC
Mandy Chan	Interactive Data
Mai Le	JP Morgan
Ankush Zutshi	Markit
Michelle Lu	Markit
Ken Lim	Bank of America Merrill Lynch
Magdalene Goh	SWIFT
Gurumurthy Golla	Thomson Reuters
Janardhan Yalapalli	Thomson Reuters
Nithin Krishnamurthy	Thomson Reuters

1. Should a MP enforce a mandatory Default Option (DFLT) ?

The Global CA SMPG has sent the following MP update proposal for section 3.11.11.2 in GMP1:

“3.11.11.2 Default Option and Standing Instruction

Default option

The default option identified is the default decided by the sender of the message, i.e. the account servicer. It may or may not be the default option of the issuer. ~~Whether default options will be provided by account servicer should be specified by SLA.~~

Technically, the default action flag of each sequence E could be set to N. There is no obligation to ~~The sender of the message should always specify which option is the default option, by~~ have including one option with a flag set to Y, even for MAND events where there is only one option in the event. For MAND events with two or more options (see 8.25) and thus including the CA Option Feature Option Applicability field, either all or no options may be specified as the default option.

except in the case of VOLU events, for which the default option is always NOAC (see section 8.23).”

Input from SE

The WG approved the proposed market practice.

ZA Feedback

The group was of opinion that should there be more than one option then event would most probably be elective thus clarification will be appreciated as to when a mandatory event have more than one option. Furthermore, normally one option must be annotated as the default option, thus kindly clarify the statement “either all or no options may be specified as the default option”.

DE Feedback

We'll hopefully discuss on Thursday meeting.

As a note: OPTF//CAOS for MAND events with one or more options: it does not seem to make it very clear, what exactly will happen, when the MAND event is booked.

CH, ES still to be discussed

ISITC: There is a risk for a custodian to enforce a default option.

Meeting minutes:

The group agrees that for VOLU events, default option should be included. However, there were some concerns that the default option should always be NOAC as there are cases where the default option is LAPS not NOAC and it should be up to the sub-custodians to decide on the default option.

The group commented that there isn't any value add to enforce a mandatory default option for MAND events and agrees with ZA feedback to provide more clarification for this scenario where there are multiple options in a MAND event.

Action: To follow up with the global CA SMPG.

2. New MP for QINS usage in DVOP/PRIO events

The Global CA SMPG provides the following QINS MP proposal:

“When an elective corporate actions include an option which result in a quantity of shares which is not related to the quantity of underlying securities (for examples a priority offer without interim securities or oversubscription option in a rights issue), then in the instruction message, the quantity of shares requested should be mentioned in the field “Quantity to instruct” (36B QINS) of the MT565.”

1. Example of a rights issue:

MT564

13A CAON//001

22F CAOP//EXER

13A CAON//002

22F CAOP//OVER

13A CAON//003

22F CAOP//LAPS

MT565 - To subscribe only:

13A CAON//001

22F CAOP// EXER

36B QINS//UNIT/ **Quantity of rights exercised**

MT565 - To oversubscribe:

13A CAON//002

22F CAOP// OVER

36B QINS//UNIT/ **Quantity of shares requested**

MT567- To subscribe

25D IPRC//PACK

13A CAON//001

22H CAOP//EXER

36B STAQ//UNIT/ **Quantity of rights exercised**

MT567 - To oversubscribe

25D IPRC//PACK

13A CAON//002

22H CAOP//OVER

36B STAQ//UNIT/ **Quantity of shares requested**

2. Example of a priority offer

MT564

13A CAON//001

22F CAOP//SECU

13A CAON//002

22F CAOP//NOAC

MT565

13A CAON//001

22F CAOP//SECU

36B QINS//UNIT/ **Quantity of shares requested**

MT567

25D IPRC//PACK

13A CAON//001

22H CAOP//SECU

36B STAQ//UNIT/ **Quantity of shares requested**

Meeting minutes:

The group had initial concerns on the use of other codes like QREC with the new MP proposed for QINS but this was clarified that in the SR 2016 changes, QREC and QOVE will be removed from the standard so there will be no ambiguity on this.

A second concern was that in the case where it is not a 1 to 1 subscription but a 10 to 1 oversubscription, will there be any confusion using QINS.

Action: To check with the global CA SMPG.

3. Create a more robust MP on narrative update information and update date

Solution options:

1. Keep last change info only
2. Keep the history of change info
3. Do not define a MP for update information

Meeting minutes:

The group commented that it is not necessary to create a MP as sub-custodians have a variety of clients with different needs – some may want to keep the history of change, some may only want the latest change information. Being a narrative field, this will stop STP anyway so it would be better to leave it undefined to allow users to define it themselves.

4. Amend name and definition of PCAL event

PCAL	Partial Redemption With Reduction of Nominal Value	Securities are redeemed in part before their scheduled final maturity date with reduction of the nominal value of the securities. The outstanding amount of securities will be reduced proportionally.
PCAL NEW	Partial Redemption without pool factor reduction	Securities are redeemed in part before their scheduled final maturity date. It is done without any pool factor reduction. The redemption out-turn is reflected with a face amount reduction.

PRED	Partial Redemption Without Reduction of Nominal Value	Securities are redeemed in part before their scheduled final maturity date without reduction of the nominal value of the securities. This is commonly done by pool factor reduction.
PRED NEW	Partial Redemption with pool factor reduction	Securities are redeemed in part before their scheduled final maturity date. The redemption out-turn is reflected with a pool factor reduction. No movement of securities occurs.

DRAW	Drawing	Redemption in part before the scheduled final maturity date of a security. Drawing is distinct from partial call since drawn bonds are chosen by lottery and with no reduction in nominal value.
DRAW NEW	Drawing	Securities are redeemed in part before the scheduled final maturity date of a security. It is done without any pool factor reduction. The redemption out-turn is reflected with a face amount reduction. Drawing is distinct from other partial redemptions since drawn bonds are chosen by lottery.

Meeting minutes:

The group agrees with the changes proposed.

5. Announcement of Currency Options

What is the SMPG guideline for announcement of the rate of each cash option in a currency option event? For example, investors can take cash in USD and GBP, and the initial rate announced is USD0.10. When the GBP rate is known, does the SMPG recommend announcing the GBP rate in Seq. E?

e.g.

Option 1: USD
Rate: USD 0.10

Option 2: GBP
Rate: GBP 0.07

Or do the guidelines recommend announcing the dividend USD base rate under the GBP option:

e.g.

Option 1: USD
Rate: USD 0.10

Option 2: GBP
Rate: USD 0.10

Meeting minutes:

According to the SMPG CA event templates, in the event where there are currency options, it is recommended to use the base currency dividend rate followed by the exchange rate information instead of using the alternate currency rate provided. However, the group's feedback was that this is usually not the case in their markets. From the operations perspective, we should use the alternate currency rate provided instead of the base rate to calculate the entitlement.

Action: To forward this to the global CA SMPG for further discussion.

6. AOB

A physical meeting for the APAC CA WG is requested by some group members. Magdalene will check with the APAC RMPG on their physical meeting this year (date, venue) and propose to run the APAC CA WG physical meeting together with the APAC RMPG.