

CSD Issuer Services

| | |
|--|----|
| Executive Summary | 2 |
| 1. Introduction..... | 6 |
| 2. Methodology | 8 |
| 3. Corporate actions services | 10 |
| 4. Information services..... | 16 |
| 5. General Meetings services | 20 |
| 6. Other issuer services | 24 |
| 7. Conclusion..... | 27 |
| Annex 1: Abbreviations..... | 29 |
| Annex 2: Key Definitions | 30 |
| Annex 3: List of figures and tables..... | 31 |

Executive Summary

Central Securities Depositories can be considered as the “first entry point” for newly issued securities, since they receive the initial deposit of securities from issuers, and subsequently allow these securities to be processed by book entry (i.e. transferred electronically from one investor to another). The actual issuance and holding procedures, as well as the type of services offered by CSDs to issuers, vary considerably from country to country, depending on issuer preference, market practice and regulation.

The 2013 ECSDA report on CSD issuer services sheds some light on the relationship between CSDs and issuers across Europe. Based on data collected from 37 CSDs established in 35 countries, it follows a similar study carried out in 2007. Compared to six years ago:

- (1) There are still important differences among CSDs as regards the scope of issuer services provided.**

These differences often result from local issuer preferences and from the type of account structure in place (issuer services tend to be more developed in direct holding markets where end investor accounts are maintained at the level of the CSD).

Figure 1. Issuer services most frequently provided by CSDs

The chart illustrates the proportion of CSDs providing upstream services to issuers or their agents, either as a complete package (“full service”) or in part (“partial service”, e.g. if not all functionalities expected of the service are available, or if the service is provided in conjunction with another market actor).

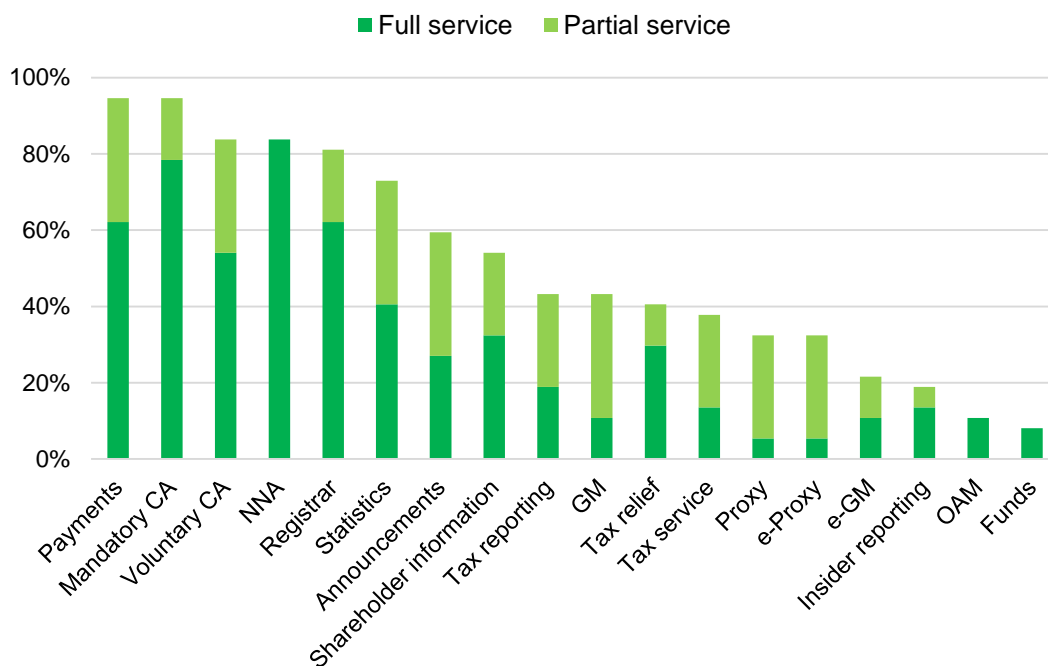


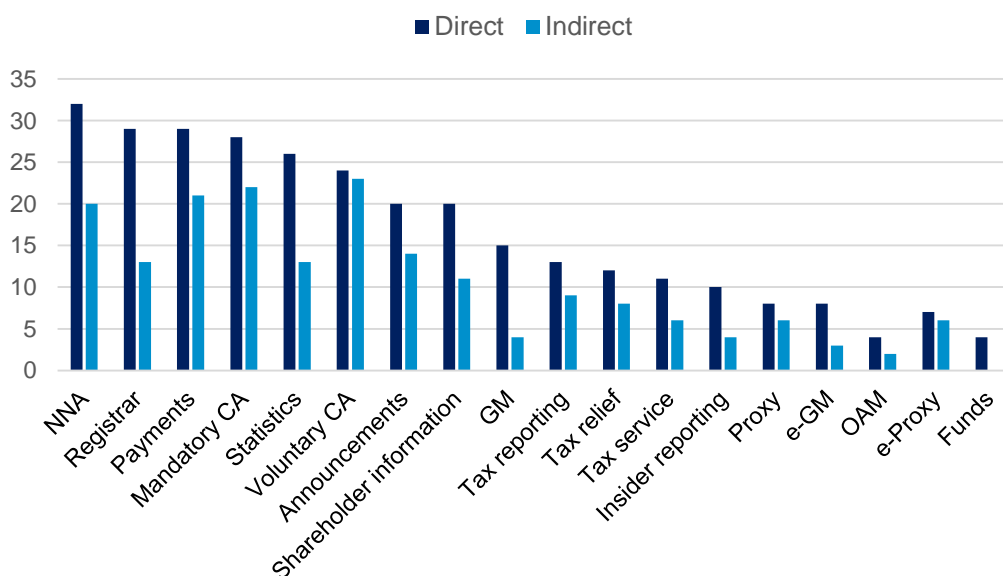
Figure 1 shows that the majority of CSDs are involved in traditional corporate actions and related payments, national numbering agency (NNA), registrar and statistical services. Tax services and electronic General Meeting services on the other hand are less frequently provided.

(2) CSDs tend to have more direct relations with issuers, although most services are also provided indirectly to issuer agents.

Like in 2007, upstream services (to issuers) are more often provided directly than downstream services (to investors). This reflects the fact that, in many countries, CSD participants maintain omnibus accounts, so that the CSD has no direct knowledge of who the end investors in the securities are. That said, many issuers appoint an intermediary bank to act as their agent towards the CSD and manage various aspects of the securities issuance and administration process, so in practice the same service can be offered both directly to issuers or to issuer agents. Figure 2 shows that General Meeting services, registrar services and statistical services for instance, are primarily offered by CSDs directly to issuers. Voluntary corporate actions and tax services, on the other hand, are frequently provided to issuer agents.

Figure 2. Users of CSD issuer services

The chart shows the proportion of upstream issuer services provided directly to issuers and indirectly to issuer agents. The vertical axis represents the absolute number of CSDs providing the service (direct and indirect provision are not mutually exclusive, since many CSDs provide services both to issuers and their agents).

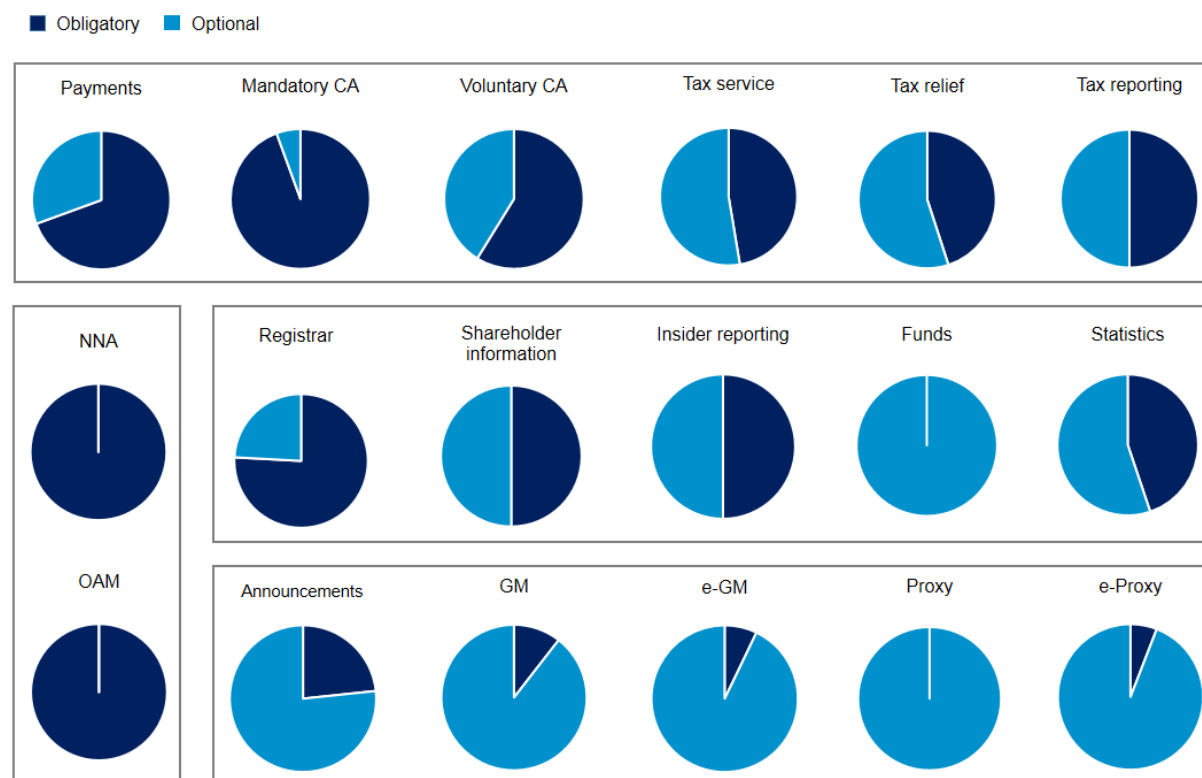


(3) General Meeting and investment funds services are attracting most competition.

CSDs often act as sole providers for “traditional” services such as mandatory corporate actions, registration and national numbering agency services (see Figure 3). General meeting services and investment funds services, on the other hand, are typically provided in a highly competitive environment.

Figure 3. Competition for CSD issuer services

The pie charts show the proportion of services provided by CSDs on an obligatory basis (meaning that the CSD is the sole service provider in a given market) and on an optional basis (multiple, competing providers).



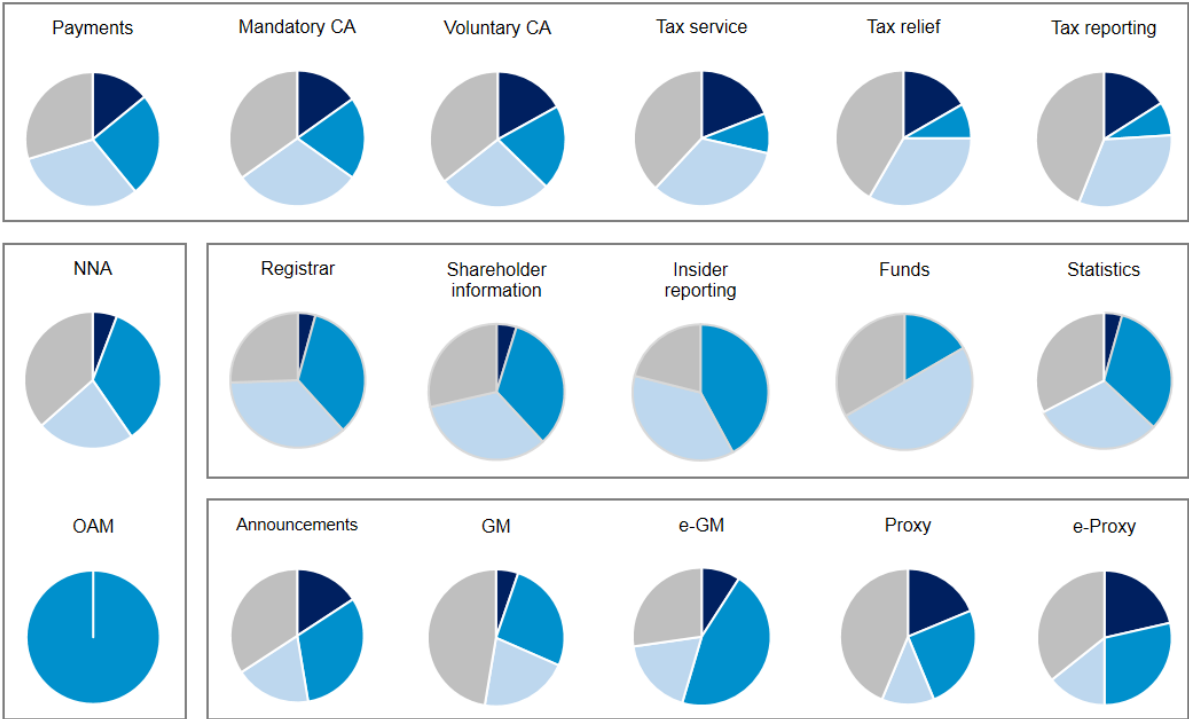
(4) Communication channels are increasingly automated. In particular, more and more CSDs offer web interfaces for issuer services.

The communication channels used for some services, especially corporate actions, are now more automated than they were in 2007, for instance as a result of the development by CSDs of dedicated web interfaces for issuers (see Figure 4). Very few issuers have the capacity to use SWIFT, so web solutions appear as a good way to reduce the amount of manual processes. Paper, email and fax however remain common, especially in smaller markets. The increase in automation at many CSDs has made it possible to improve the information flow from issuers to CSDs and to reduce the likelihood of errors and delays. This trend is likely to persist in the future, including as a result of the implementation of European market standards for corporate actions and General Meetings.

Figure 4. Communication channels used for CSD issuer services

The pie charts indicate the relative weight of each communication channel used by CSDs, when the service is provided. Different communication channels are not mutually exclusive and can be used concurrently by a given CSD, depending on client preferences.

■ SWIFT ■ Web ■ Proprietary ■ Other



1. Introduction

Central Securities Depositories (CSDs) play an essential role in modern financial markets. They operate securities settlement systems that allow securities to be delivered against cash in a simultaneous way, thereby reducing risk for market participants. Issuers also use CSDs to deposit new securities, whether in fully dematerialised, immobilised or physical form. By holding securities issuance accounts on behalf of issuers, CSDs subsequently make it possible for securities to be processed by book-entry, i.e. by electronic transfer, without the need for physically moving paper certificates. In many (but not all) cases, the CSD is furthermore responsible for protecting the integrity of securities issuances, making sure that the number of securities issued is, at all times, equal to the total number of securities in circulation (i.e. booked in investors' accounts).

The actual issuance and holding procedures, as well as the type of services offered by CSDs to issuers, vary considerably from country to country, depending on issuer preference, market practice and regulation. In some markets, CSDs offer extensive services to issuers, while in other markets they provide a rather limited service. These services can be looked at from two perspectives (see Figure 5):

Figure 5. Downstream and upstream services of CSDs



- Downstream, the CSD provides services to securities investors or to the intermediaries holding the securities on behalf of investors, typically facilitating the interaction between investors and issuers. For example, CSDs can transmit information on company announcements to investors or transmit investor information to issuers.
- Upstream, the CSD provides services to issuers of securities or their agents. Given that procedures for issuing and listing securities are often complex and far away from most companies' core businesses, many issuers appoint an intermediary, such as a custodian bank, to act as their agent towards the CSD and to manage various aspects of the securities issuance and administration process.

This report presents the findings of a survey carried out in the summer of 2013 among ECSDA member organisations. It follows a similar survey performed in June 2007 and published in the form of a report in January 2008¹. Since both surveys cover broadly similar ground, the objective of this new report is twofold:

¹ Report of the ECSDA ad hoc Task Force on Issuer Services, January 2008, available at: http://www.ecsda.eu/uploads/tx_doctrinary/2008_01_ECSDA_Issuer_Services_Report.pdf

- 1) Update the 2007 study with more recent developments, thereby highlighting the main trends witnessed over the past six years in relation to CSD issuer services;
- 2) Enrich the quantitative findings with more qualitative data and background explanations.

The examples taken from individual CSDs aim at illustrating particularly relevant or recent examples of issuer services. They should not necessarily be considered as “best practice” or as particularly representative. Moreover, the descriptions of the services provided are very succinct, and readers are encouraged to contact the relevant CSD(s) for more details.

2. Methodology

37 CSDs from 35 countries took part in the survey (see Table 1). With the exception of NDU, the National Depository of Ukraine (which was not an ECSDA member at the time), all CSDs also took part in the 2007 survey².

Table 1. List of respondents

| Country code | (Short) name of the CSD | Country code | (Short) name of the CSD |
|--------------|---------------------------------|--------------|--------------------------------|
| AT | OeKB | IT | Monte Titoli |
| BA | RVP | LT | CSDL |
| BA | Central Registry of Securities | LU | Clearstream Banking Luxembourg |
| BE | Euroclear Bank | LV | Latvian Central Depository |
| BE | Euroclear Belgium | ME | Central Depository Agency |
| BG | CDAD | MT | Malta Stock Exchange |
| CH | SIX SIS Ltd | NL | Euroclear Nederland |
| CY | CSE | NO | VPS |
| CZ | CDCP | PL | KDPW |
| DE | Clearstream Banking AG | PT | Interbolsa |
| DK | VP Securities | RO | Depozitarul Central |
| EE | Estonian CSD | RU | NSD |
| ES | Iberclear | SE | Euroclear Sweden |
| FI | Euroclear Finland | SI | KDD |
| FR | Euroclear France | SK | CDCP SR |
| GR | HELEX | TR | MKK |
| HR | SKDD | UA | NDU |
| HU | KELER | UK | Euroclear UK and Ireland |
| IS | Icelandic Securities Depository | | |

As in 2008, the report distinguishes four categories of issuer services:

- (1) Corporate actions services
- (2) Information services
- (3) General Meeting services
- (4) Other issuer services

For each type of service, respondents were asked the following:

- (a) Whether they provide the service or not, and whether the service is available upstream and/or downstream (see Figure 5);
- (b) Whether the service is obligatory or optional;

- **Obligatory** means that the CSD is the only entity providing the service in a given market (for example because the CSD is required by law to provide the service)

² 3 CSDs were included in the 2007 study but did not take part in the 2013 survey: Takasbank (Turkey), DCC (following the integration of DCC and NSD in 2012, NSD obtained official CSD status in Russia), and the Central Securities Depository and Clearing House of Serbia.

- **Optional** means that market participants can opt to use a different provider for the service (competitive service provision)

(c) Whether the service is provided directly or indirectly;

- **Direct** means that the CSD offers services to issuers (upstream) or to investors (downstream)
- **Indirect** means that the CSD offers services to wholesale intermediaries, whether issuer agents (upstream) or CSD participants (downstream)

(d) What type of communication interfaces are used for providing the service.

- **SWIFT** means that the CSD uses SWIFT financial messages to communicate with the users of the service
- **Web** means that the CSD maintains an internet-based platform allowing users to access relevant information and services online
- **Proprietary** means that users can use the service through a specific interface maintained by the CSD itself
- **Other** means all other communication channels, including manual processes such as paper, email, fax and telephone³.

The report looks at each type of service separately, before concluding with general trends in CSD issuer services.

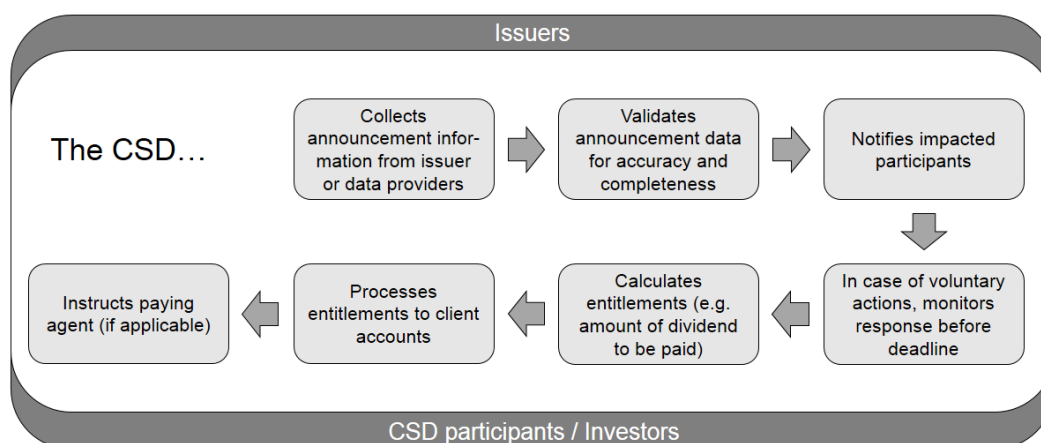
³ In a few cases, "other" also includes STP channels such as FIX, computer-to-computer links and FTP/XML file transmission.

3. Corporate actions services

3.1 Role of the CSD in processing corporate actions

Corporate actions are events initiated by an issuer of securities and which have an impact on the holders of the securities, such as the payment of a dividend on shares. Although the issuer is the only “golden source” of corporate action information, the CSD plays an essential role in spreading such information through the holding chain (see Figure 6). In addition to circulating the information to the securities holders affected by the corporate event, CSDs typically calculate the entitlements and process the necessary changes, if applicable, on the securities holdings. Regarding cash payments, the CSD usually performs the necessary calculations and provides the paying agent with a list of participants or investors entitled to receive the cash distribution (unless the CSD has a banking license and acts itself as the paying agent). An alternative is the model where the CSD credits the investors directly, after receiving an authorisation and the proceeds from the paying agent or issuer (e.g. in the ESES CSDs).

Figure 6. Role of the CSD in the corporate actions lifecycle – simplified overview



3.2 Type of corporate actions services provided by CSDs

For the purpose of this report, corporate actions are divided into 6 categories:

- (a) **Payment services:** The CSD processes payments on behalf of the issuer, for example crediting a cash dividend to the securities holder, either directly (if the CSD provides cash accounts) or indirectly (via the issuer’s paying agent).
- (b) **Mandatory corporate actions (thereafter “mandatory CA”):** The CSD processes corporate events where no action is required on the part of securities holders. For example, in the case of a mandatory stock split, the CSD will replace an existing security by X quantity of new securities on the accounts of securities holders at the CSD.
- (c) **Voluntary corporate actions (thereafter “voluntary CA”):** The CSD processes corporate events on securities where the securities holders need to take action, for example by deciding

whether or not take part in a tender offer. If the holder takes no action, its holding is usually not affected by the corporate action.

- (d) **Tax withdrawal (thereafter “tax service”)**: The CSD deducts the applicable tax from the relevant income, e.g. when a dividend or interest is paid on a given security. The tax proceeds collected by the CSD are then paid to the relevant tax authorities.
- (e) **Tax relief at source (thereafter “tax relief”)**: The CSD allows eligible securities holders to obtain relief at source, i.e. to be exempted from the applicable withholding tax. In some cases the CSD can also assist investors in obtaining relief, e.g. by collecting and sending the applicable forms to tax authorities. When relief at source is not possible, a CSD can offer tax refund services, whereby it processes tax reclaims on behalf of securities holders.
- (f) **Tax reporting**: The CSD produces reports allowing its participants to reconcile their various securities holdings and tax payments. In some cases the CSD can also send reports directly to tax authorities on behalf of its participants.

Figure 7. CSDs providing corporate action services

“Do you provide the following services upstream (U) and/or downstream (D)?”

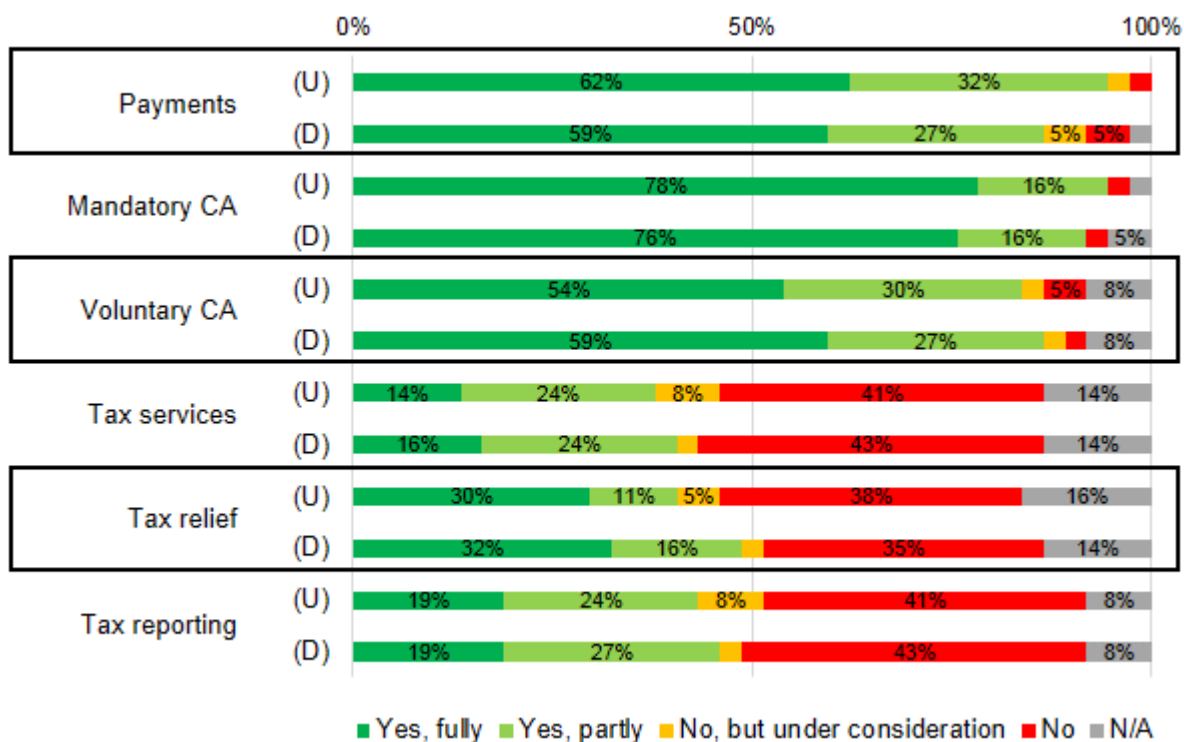


Figure 7 shows that almost all CSDs offer corporate action services, especially for mandatory corporate actions. As in 2007, almost all CSDs processed corporate action related payments, at least upstream for issuers (94%). Tax services, on the other hand, are less frequent, with slightly less than half of the respondents providing the service. Among those CSDs which do not offer tax services, very few CSDs plan to provide the service in the future, citing the lack of demand on the issuer side as the main reason. In fact, the proportion of CSDs providing tax services is broadly comparable to that observed in 2007 (only 19% of CSDs state that they are fully involved in tax services).

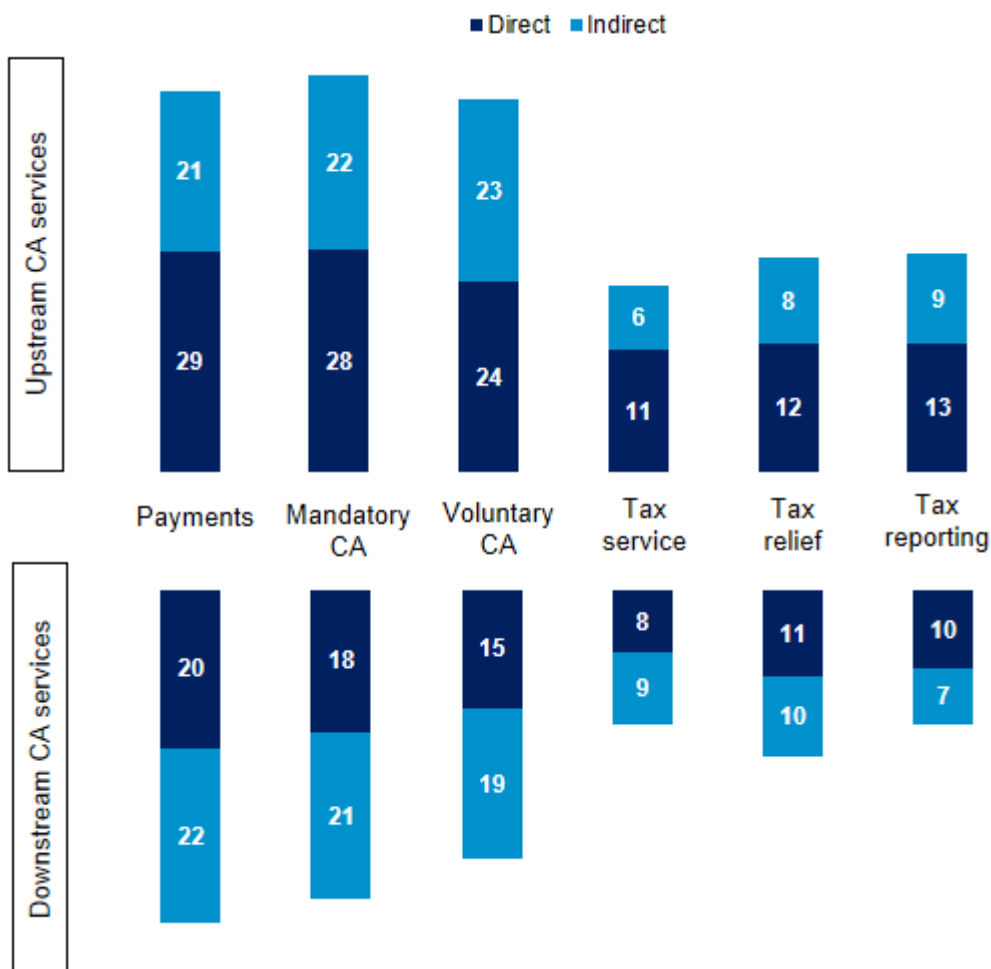
3.3 Users of corporate actions services

It is interesting to note that, while upstream services of CSDs are most of the time provided directly to issuers, downstream services to investors are most of the time provided indirectly (via the CSD participant, typically a wholesale bank), as evidenced by Figure 8. Many of the CSDs providing services directly to issuers and investors are so-called “transparent” CSDs operating with a direct holding account structure. But it is actually not unusual for a CSD to offer services both to issuers directly and to issuer agents, depending on the specific service and issuer preference.

Figure 8. Direct and indirect provision of corporate action services

“Do you provide these services indirectly to a wholesale intermediary, or directly to the issuer (upstream) or the investor (downstream)?”

Remark: The numbers correspond to the number of CSDs having responded “yes” for direct and/or indirect services.



3.4 Competition for corporate actions services

In most cases, corporate actions services are provided by CSDs on an “obligatory” basis, i.e. market participants have no choice but to use the CSD for the service, typically because these corporate actions require that a record be made in the central securities database and/or that changes be made on participants’ accounts at the CSD. This is especially the case for mandatory corporate actions (see Figure 3). Sometimes, the use of the CSD is even a legal requirement. For example, in Montenegro, according to national law, certain corporate actions can only be carried out in the Central Depository Agency (CDA), the local CSD. Other times, redemptions and bond coupon payments are a mandatory service of the CSD, whereas the payment of cash dividends is an optional service, which can also be provided outside the CSD. In Latvia, all corporate actions of public financial instruments are managed by the Latvian Central Depository (LCD), while issuers of non-listed financial instruments can choose which corporate actions are managed by the CSD.

Conversely, tax services, when provided by the CSD, are often optional. This means that tax services are typically also offered by other service providers than CSDs.

3.5 Communication channels

One area where significant developments have taken place since 2007 is the type of interfaces used by CSDs for communicating with issuers on corporate actions. Table 2 shows that overall, the STP (straight-through processing) rate has improved for all types of corporate actions over the past six years. The STP rate is calculated as the sum of SWIFT, web and proprietary channels, divided by the total number of communication channels used.

In 2007, although a large number of CSDs were providing services directly to issuers, only 19% were offering a web interface to issuers. Today, more than 60% of CSDs communicate with issuers via a web interface, a proprietary interface, or via SWIFT for corporate actions. In the field of tax services however, these communication channels are much less frequent and around 40% of the time, manual processes (mostly paper-based) are still used.

Table 2. Progress in the STP rate for CSD upstream corporate actions services since 2007

| | Payments | Mandatory CA | Voluntary CA | Tax services | Tax relief | Tax reporting |
|------|----------|--------------|--------------|--------------|------------|---------------|
| 2013 | 70% | 65% | 64% | 62% | 58% | 56% |
| 2007 | 50% | 48% | 36% | 42% | 17% | 44% |

Leaving tax services aside, Figure 4 shows that the use of a proprietary interface is slightly more common than the use of a web interface (and also more widespread than the use of SWIFT) for communicating with issuers. In fact, many CSDs offer these channels simultaneously. The ESES CSDs for example (Euroclear Belgium, Euroclear France and Euroclear Nederland) work with proprietary and SWIFT messages, as well as a web-based graphical user interface (GUI).

As highlighted in the 2007 ECSDA study, the upstream service on corporate actions is not frequently used by issuers, which is why there is not always the need to develop sophisticated interfaces. Issuers which are not financial institutions are also often not equipped to deal with SWIFT messages. Furthermore, there are sometimes legal requirements for corporates to publish corporate action announcements in local newspapers. Companies facing such requirements are typically looking for a simple and easy way to re-use the structure and contents of their paper announcements when communicating with the CSD, without having to convert the message into a SWIFT format. CDAD in Bulgaria is able to receive SWIFT messages and gives issuers the possibility to use web forms to transmit corporate action information, but paper has not yet been fully eliminated, and some issuing companies continue to send hard copies of announcements to the CSD.

Sometimes, only CSD participants can access the CSD proprietary system, hence the development of web interfaces for facilitating communications with issuers. For example, in Hungary, only securities account holders may have access to KID, the KELER proprietary communication system. Instead, issuers can use KELER's web based interface, eDEMAT, for mandatory and voluntary corporate actions. KDPW in Poland also developed a web interface for issuers in 2012 in order to reduce the exchange of paper forms between issuers and the CSD.

As regards the use of ISO standards and SWIFT, there has been some progress since 2007. For example, Interbolsa in Portugal adopted MT564 and MT566 messages for corporate actions, and MKK in Turkey sends corporate actions notifications via SWIFT ISO 15022 compliant messages since 1 June 2009. In other countries like the UK, additional fields are now used in SWIFT messages to enhance the coverage of different types of corporate actions. In general, however, using SWIFT is not the preferred option for most issuers and participants, and the web or proprietary interfaces are much more widely used.

Despite some progress, there is still some way to go before paper can be eliminated. Some respondents explained that the CSD still receives hard paper copies of corporate announcements from issuers. In Latvia for example, issuers typically inform the CSD about upcoming corporate actions by fax or by way of an official letter. The CSD then informs its participants by SWIFT, email, and electronic messages contained in dmd files.

Downstream, the level of automation for corporate actions messages is higher. For example, for payments on corporate actions, 17 out of 36 respondents use SWIFT with their participants, while they are only 9 to do so with issuers. This is because in many cases CSDs provide corporate action services on the custodian level, while the corporate action services provided to end investors is the responsibility of custodians. That said, many CSDs offer SWIFT upon request and witness a preference of participants for other communication channels.

In direct holding markets, CSDs can provide corporate actions services directly to investors. In Greece, for example, investors can subscribe to HELEX's AxiaSMS or AxiaWEB services for securities allocation. In Turkey, MKK launched a mobile portal, called eGovernance, in 2011, which allows online distribution of company announcements to actual or potential shareholders, including by email and SMS. The portal, which also contains other features like investor blogging and customised reporting, is also available in English so that foreign investors can also benefit from the service.

Still in direct holding countries, some CSDs send securities account statements directly to end investors, as well as relevant tax forms. In such cases, web, email and postal mail are most frequently used.

4. Information services

4.1 Role of the CSD in offering information services

The information services described below are intimately linked to the role of the CSD in recording the initial deposit of securities. In a way, CSDs can be described as the “first entry point” for newly created securities, although not all CSDs are responsible for maintaining the register of shareholders/investors and for ensuring the integrity of the issue. In some countries like the UK, ownership records in securities are maintained by third parties called registrars. In other countries like Switzerland, registration and information services are not provided by the CSD entity itself (SIX SIS), but by another, separate entity within the corporate group (SIX SAG, a subsidiary of SIX SIS Ltd).

For the many CSDs performing that role, however, it is natural that they are seen by market participants, issuers and regulators as a central source of information on securities holders.

4.2 Type of information services provided by CSDs

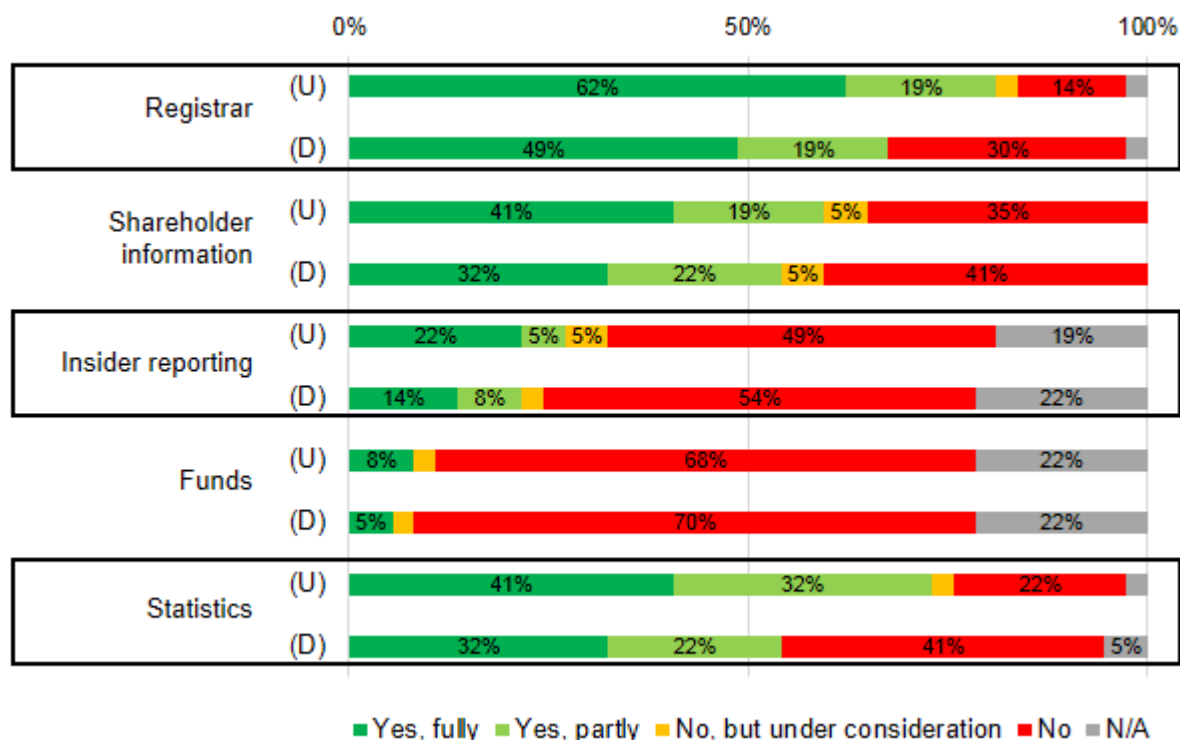
For the purpose of this report, information services are divided into 5 categories:

- (a) **Registrar services (thereafter “registrar”)**: The CSD maintains a nominative register which constitutes the legal record of securities holders. The CSD manages operations related to positions in the register such as changes in ownership, corporate actions, etc.
- (b) **Shareholder information**: The CSD provides information (whether aggregated or not) to issuers or the public regarding the shareholders of a company.
- (c) **Insider reporting**: In some markets, the CSD is responsible for collecting information on certain investors, such as those having access to privileged information, and for reporting such information to national supervisory authorities. The objective is to prevent insider trading.
- (d) **Services to mutual funds (thereafter “funds”)**: The CSD offers tax administration and other information services to issuers of mutual funds, including for instance the calculation of positions held by investors in the fund(s).
- (e) **Statistics**: The CSD provides ownership, turnover and/or holdings statistics to interested parties such as investors and public authorities.

Figure 9 shows that information services of CSDs are mostly directed to issuers: the proportion of CSDs providing upstream services is higher than the proportion of CSDs providing downstream services for all categories of services. It also shows that a large majority of CSDs provides registrar services (81% upstream, 68% downstream), a proportion that is stable since 2007. A few CSDs however are enhancing their service offering in this area. In Montenegro for instance, the Central Depository Agency (CDA) plans to introduce a new service by the end of 2013 allowing both investors and issuers to access their data and certain statements on the web.

Figure 9. CSDs providing information services

“Do you provide the following services upstream (U) and/or downstream (D)?”



The provision of statistics to issuers is also frequent (73%), as is the provision of shareholder information (60%). Regarding statistics, the breadth and depth of the data provided can vary from one CSD to another, hence the high number of CSDs that respond “Yes, partly”. For example, some CSDs are “fully involved” in ownership and holding statistics, but they might not provide turnover statistics. For shareholder information, in case a CSD declares itself “partly involved”, it is often because it provides information on securities holders and/or securities holdings upon request rather than as a standard service⁴.

Insider reporting and information services in relation to mutual funds are only offered by a few CSDs. Some CSDs, including the two ICSDs Euroclear Bank and Clearstream Banking Luxembourg, offer order routing platforms and access to holding statistics on mutual funds, but the actual records of funds holdings are usually maintained outside the CSD by the fund manager or transfer agent. As in 2007, very few CSDs plan to develop information services for funds or insider reporting services in the future.

4.3 Users of information services

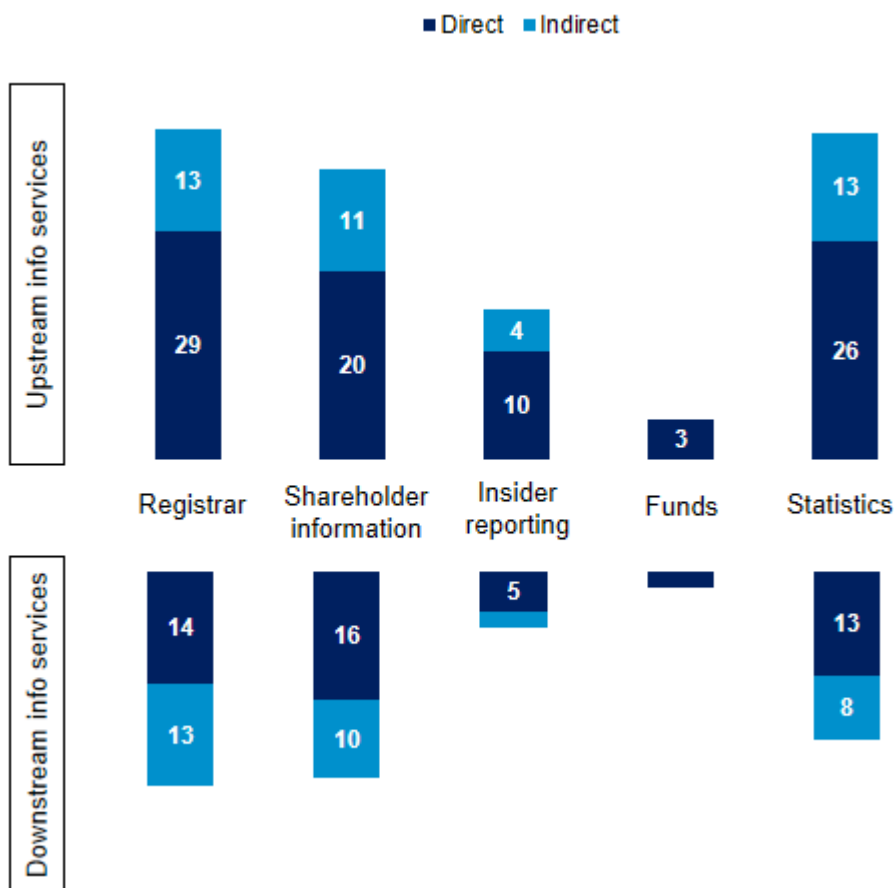
Information services are mostly provided directly to issuers or to investors, as evidenced by Figure 10. CSDs providing registrar services to end investors typically operate in direct holding markets where it is possible for end investors to obtain some information directly from the CSD, although their securities

⁴ See also the 2011 report of the T2S Taskforce on shareholder transparency, available at : <http://www.ecb.europa.eu/paym/t2s/governance/ag/html/subtrans/index.en.html>

holdings are managed by a CSD participant acting as “account operator”. In Norway for instance, individual investors can access an overview of their securities holdings at the CSD by using the web platform of their bank/account operator.

Figure 10. Direct and indirect provision of information services

“Do you provide these services indirectly to a wholesale intermediary, or directly to the issuer (upstream) or the investor (downstream)?”



4.4 Competition for information services

Figure 3 shows that, within information services, a distinction can be made between:

- (a) **Registrar services**, which tend to be provided by CSDs under a legal privilege. 75% of CSDs providing registrar services are acting as the sole registrar in the market they serve; Although many countries have opted for a central register, in some markets like the UK and Russia, there is competition between independent registrars, which have to maintain special accounts to ensure full consistency between their ownership records and the book entries of the CSD.
- (b) **Information services for investment funds**, which are provided in a fully competitive environment.
- (c) **Other services** (shareholder information, insider reporting, statistics), where the CSD tends to be the sole provider in roughly half of the markets, whereas it faces competition from providers offering similar services in the other cases.

As usual, the situation very much reflects national laws and practices. In Hungary for example, the law requires ownership identification to be performed by the CSD, but issuers may appoint a third party as registrar.

4.5 Communication channels

Compared to corporate actions services, information services of CSDs hardly ever make use of SWIFT as a communication channel. Web and proprietary interfaces are the most common solutions, as evidenced by Figure 4. Manual processing is generally less frequent than for corporate actions, and has slightly decreased compared to 2007, especially for shareholder information services (from 39% to 29%, although the level of automation does not seem to have increased significantly for other information services).

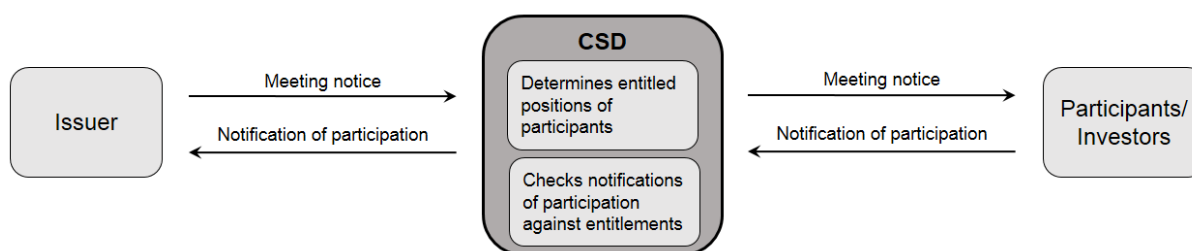
5. General Meetings services

5.1 Role of the CSD in offering General Meeting services

General Meetings can be described as a special type of corporate actions. They are especially important because they allow shareholders to intervene directly in the governance of the companies in which they have invested, for example by voting on strategic decisions and by electing the Board of Directors. The services provided by CSDs in relation to the organisation of General Meetings (mostly Annual General Meetings or AGMs, but also Extraordinary General Meetings) are naturally closely related to the information services described in section 4 of the report.

In addition to facilitating the flow of General Meeting related information to participants (and ultimately shareholders/investors), CSDs also perform important checks on the entitlements of securities holders based on the positions held at the CSD on the record date (see Figure 11).

Figure 11. Role of the CSD in General Meetings – simplified overview



The role of CSDs and of the intermediaries in the chain is crucial to ensure a free flow of information between the issuer and end investors/shareholders. Indeed, in many cases, securities are held in nominee or omnibus accounts at the CSD, or in bearer form, which means that issuers do not have a direct access to the identity of their investors and thus cannot communicate directly with them.

5.2 Type of General Meeting services provided by CSDs

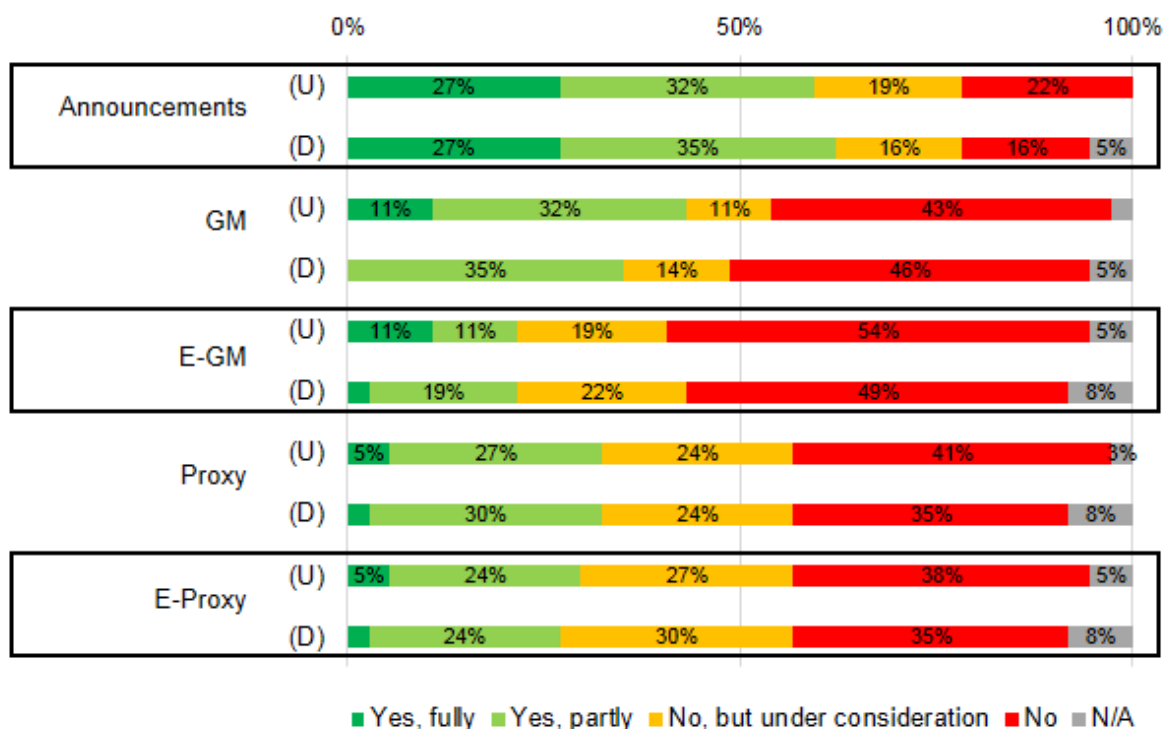
For the purpose of this report, General Meeting services are divided into 5 categories:

- (a) **Announcement services (thereafter “announcements”)**: The CSD obtains General Meeting convocations and other announcements from the issuer and transmits the information as soon as possible to the relevant securities holders.
- (b) **General Meeting administration services (thereafter “GM”)**: The issuer outsources the administration of the General Meeting to the CSD (up to white labelling), including for instance the printing of voting instruction documents, admission requests and the distribution of these services.
- (c) **Electronic General Meeting administration services (thereafter “e-GM”)**: Same as GM administration services, but offered electronically, i.e. without the need for manual intervention.

- (d) **Proxy voting services (thereafter “proxy”):** The CSD gathers voting instructions and admission requests from securities holders and/or communicates the collected voting instruction results and admission requests to the issuer.
- (e) **Electronic proxy voting services (thereafter “e-proxy”):** Same as proxy voting services, but offered electronically, i.e. without the need for manual intervention.

Figure 12. CSDs providing General Meeting services

“Do you provide the following services upstream (U) and/or downstream (D)?”



A majority of CSDs is involved in General Meeting announcements, and more than 1/3 also provide GM administration and proxy voting services. Electronic GM and proxy services remain less frequent, but e-proxy services show a strong progression: While less than 17% of CSDs were offering e-proxy services in 2007, close to 30% of them did in 2013 (29% upstream, 27% downstream). Euroclear Finland, for instance, introduced electronic notifications and advance voting services in 2009. Figure 12 shows few differences between the proportion of upstream and downstream services for General Meetings. This suggests that most CSDs, when they offer such services, offer them both to issuers and participants/investors. Some CSDs offer GM services in partnership with a specialist provider. Clearstream and SIX SIS, for example, work with Institutional Shareholder Services Inc. (ISS).

Unlike corporate actions and information services, it is interesting to note that General Meeting services are seen as an attractive business by many CSDs which currently do not provide the service. Around 1/4 of the respondents are considering offering e-proxy services in the near future. Euroclear Sweden, for example, has developed a prototype that has been introduced to potential clients in 2013. Although the use of e-proxy is now legally possible in most European countries, it often requires changes in the

issuers' articles of association, and not all issuers have adapted their rules so far, which explains why the service is not yet broadly used in practice.

Furthermore, it is worth noting that some of the GM services developed in recent years are inspired by the EU Shareholder Rights Directive⁵, the European Market Standards on General Meetings⁶ and the Principles for an Effective and Efficient Proxy Voting System of the Council of Institutional Investors⁷. The Turkish legislator, for instance, went even further than European and international standards and decided to impose the use of electronic GMs for companies listed on the Istanbul Stock Exchange. MKK's e-GEM portal, launched in October 2012, allows issuers to manage GMs electronically and shareholders, whether domestic or foreign, to attend physical GMs via the internet. Issuers can issue convocation notices via the system, publish proxy materials and obtain the list of attendees on the day prior to the meeting. The system automatically sends the list of attendees and the GM minutes to the Trade Registry. The service was developed to do away with the complexity of the proxy voting system, including the practice of share blocking, and to allow international investors to exercise their rights in General Meetings.

5.3 Users of General Meeting services

When providing General Meeting services upstream, CSDs most of the time have a direct relationship with issuers. Downstream, however, CSDs tends to provide services primarily through intermediaries, except when they are responsible for administering General Meetings on behalf of the issuer, in which case they often have direct contacts with end investors (see Figure 13). HELEX for example, offers downstream GM services such as governance shareholder analysis, vote authority analysis, pre-agenda analysis and post-meeting analysis.

5.4 Competition for General Meeting services

Figure 3 shows very clearly that CSD General Meeting services are offered in competition with many other actors. In fact, with the exception of GM announcements, for which 7 respondent CSDs declare that their service is "obligatory", the service is almost always provided on an optional basis, i.e. in a competitive environment. This clearly differentiates General Meetings from other issuer services.

⁵ Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies, available at:

http://ec.europa.eu/internal_market/company/shareholders/indexa_en.htm

⁶ The European Market Standards for General Meetings (September 2010) are available at:

http://www.ecsda.eu/uploads/tx_doclibrary/2010_09_09_GM_Market_Standards_Final.pdf

The European Market Standards on Corporate Actions processing (2009) are available at:

http://www.ecsda.eu/uploads/tx_doclibrary/2009_Market_Standards_CA_Processing.pdf

⁷ The CII Principles on "Effective and Efficient Proxy Voting" were adopted in April 2010. More details at:

http://www.cii.org/policies_other_issues#effective_proxy_voting

Figure 13. Direct and indirect provision of General Meeting services

“Do you provide these services indirectly to a wholesale intermediary, or directly to the issuer (upstream) or the investor (downstream)?”



5.5 Communication channels

As illustrated in Figure 4, manual processes remain important for General Meeting administration services. Compared to corporate actions, the use of SWIFT and proprietary systems is slightly less frequent, and the use of web interfaces more widespread, especially for supporting electronic GMs and e-proxy solutions. Whereas some CSDs combine web interfaces and manual processes, some, like Euroclear UK & Ireland, only offer e-proxy services (no paper proxies). Turkey is an interesting case because Article 1527 of the Turkish Commercial Code makes it compulsory for companies listed on the Istanbul Stock Exchange to provide a system which enables their shareholders to attend General Meetings and cast their votes by electronic means. The development of e-GM and e-proxy services in the Turkish market is thus a direct result of domestic law.

As in 2007, there are no apparent differences in the communication channels used for downstream and upstream services.

6. Other issuer services

6.1 Role of the CSD in offering other issuer services

The final part of the ECSDA survey covered the role of CSDs as:

- (a) **National Numbering Agency (thereafter “NNA”)**; and
- (b) **Official Appointed Mechanism (thereafter “OAM”)**.

NNAs are responsible for issuing and allocating International Securities Identification Numbers (ISINs) to eligible financial instruments⁸. ISINs are unique identifiers which facilitate the trading, clearing and settlement of shares, bonds, commercial paper, investment fund units and warrants, among others. The structure of ISIN code relies on the ISO 6166 international standard and comprises a 12-character alpha-numerical code.

OAMs are specific to countries in the European Economic Area (EEA) and were created in the framework of the EU Transparency Directive⁹. The objective of the Directive, adopted in 2004, was to harmonise the transparency requirements for listed companies (issuers whose securities are admitted to trading on a regulated market). According to the Transparency Directive, each EEA country should have at least one OAM responsible for the central storage of the regulated information of listed companies. The OAM must provide an authentication tool for issuers and allow them to upload the regulated information (e.g. ad-hoc messages, business reports) in the system. OAMs also maintain web platforms allowing shareholders and the general public to download the information.

6.2 Other issuer services provided by CSDs

31 out of 37 respondent CSDs (84%) act as NNAs. The six countries where the CSD is not also the NNA are:

- Belgium and the UK, where the securities exchange (Euronext Brussels¹⁰ and the London Stock Exchange respectively) is the NNA;
- Italy and Spain, where the central bank and the securities regulator act as NNAs respectively;
- Germany, where commercial data vendor WM Datenservice is the NNA;
- And Turkey, where Takasbank, also an ECSDA member but not among the survey respondents, acts as NNA.

As a result of the merger between SWX Group, SIS Group and Telekurs Group in 2008, Telekurs, formerly acting as NNA for the Swiss market, has been integrated into SIX Financial Information Ltd. Although the CSD entity of the SIX Group, SIX SIS, is thus not acting as NNA itself, the function is

⁸ More details on the function of NNAs at: www.anna-web.org

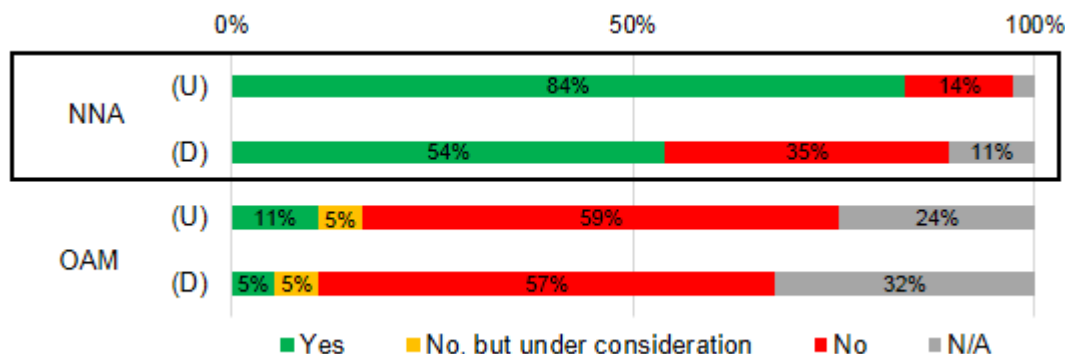
⁹ Directive 2004/109/EC, available at: http://ec.europa.eu/internal_market/securities/transparency

¹⁰ In practice, SIX Financial Information Belgium acts as numbering agency on behalf of Euronext Brussels, the official NNA.

performed by a sister company. In Bosnia-Herzegovina, since 2008, BA-ISINs are allocated by RVP, the CSD for the Federation of Bosnia-Herzegovina, and the Central Registry of Securities in Banja Luka for Republic of Srpska, the second entity constituting Bosnia-Herzegovina. The ISINs and the related securities information are then validated by WM Datenservice before they are confirmed.

Figure 14. CSDs providing other issuer services

“Do you provide the following services upstream (U) and/or downstream (D)?”



Only 4 CSDs out of the 30 respondents established in the EEA have been appointed as OAMs in their jurisdiction: OeKB, the CSE, the MSE, and Helex. Moreover, 2 CSDs are considering the possibility of performing this function in the future.

6.3 Users of other issuer services

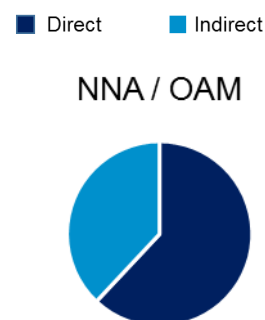
Both upstream and downstream NNA and OAM services are mostly provided directly to issuers and investors (see Figure 15). In general, NNA services are free - both for issuers and downstream parties. Some NNAs also offer their services downstream to wholesale data vendors by data transfer or directly to companies or individuals via the internet, sometimes against a fee¹¹.

When operating as OAM, the CSD gets information upstream from issuers, and then distributes the information downstream to authorities, companies and individuals. Unlike NNA services, OAM services are usually paid by the upstream parties (issuers) and are free of charge for the downstream parties.

In all cases, there is no requirement to have an account at the CSD in order to access the service.

Figure 15. Direct and indirect provision of other issuer services

“Do you provide these services indirectly to an issuer agent or directly to the issuer?”



¹¹ All NNAs must work on the basis of two key principles, cost recovery and RAND. Cost recovery means that any charges levied for ISIN allocation must be charged on a cost-recovery basis principle. RAND means that ISINs and defined data elements must be provided to users of the ISO 6166 standard on a reasonable and non-discriminatory basis.

6.4 Competition for other issuer services

As in 2007, NNA or OAM services are predominantly provided on a sole supplier basis (see Figure 3). In principle, there is one NNA per country as it is considered most efficient to centralise the issuance of ISIN codes in a given market in a single entity. It is worth noting however that both ICSDs act as NNAs for international issues (Eurobonds).

For OAMs, whether there is one or more providers depends on the country. Out of the 4 CSDs providing the service, all do so on a sole supplier basis.

6.5 Communication interfaces

NNA services still involve some paperwork and manual processing, but web interfaces, and to a lesser extent proprietary interfaces, are quite common (see Figure 4). In Euroclear France, the ISIN code allocation is part of a fully automated process for the same-day issuance of specific instruments.

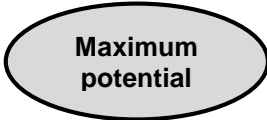
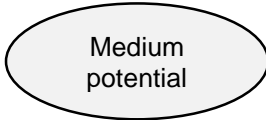
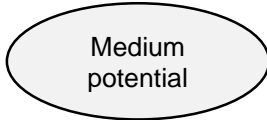
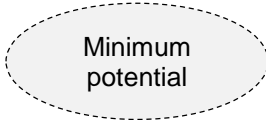
All 4 respondent CSDs acting as OAMs use web interfaces: the upload of information into the system of the OAM is restricted to the issuer or its agent. Downstream, any interested person can download the stored information from the OAM, also via a web interface.

7. Conclusion

Compared to six years ago, the main changes witnessed by CSDs in relation to issuer services are (a) an increase in the use of automated communication channels and (b) a tendency for CSDs to have more direct relations with issuers.

Overall, the relative importance of each category of issuer services however remains unchanged, and important national differences persist, mostly as a result of issuer preferences and legal constraints. The matrix contained in the 2007 report (see Table 3) thus remains largely valid today:

Table 3. Matrix for CSD issuer services

| | Direct relation with issuer | Intermediary relation with issuer |
|-------------------------|---|--|
| Direct holding system |  <p>Maximum potential</p> |  <p>Medium potential</p> |
| Indirect holding system |  <p>Medium potential</p> |  <p>Minimum potential</p> |

Traditional and well-established CSD services such as payments, mandatory corporate actions and registrar services, are generally highly automated and relatively stable since 2007. “Newer” services such as General Meeting support, tax services and investment fund services on the other hand are less frequent and typically less automated, but appear as more attractive businesses for the future, despite being provided in a highly competitive environment.

Interestingly, recent developments in issuer services are often inspired not only by new market demands, but also by the evolution of market standards and regulations. The European Market Standards for Corporate Actions and for General Meetings, the EU directives on shareholder rights and transparency, are among the drivers behind some recently developed CSD issuer services. It will thus be interesting to see whether progress in the implementation of the Market Standards and new EU regulations (such as the upcoming EU Regulation on CSDs) will have an impact on the scope of issuer services in the future. The implementation of the TARGET2-Securities project as of 2015 will also most certainly play a key role as it will force participating CSDs to reposition their service offering, moving away from commoditised settlement, to be provided by the T2S platform, towards more value-added services, including possibly issuer services. By allowing issuers to enlarge their investor base within the single European market, T2S is likely to result in a progressive harmonisation of issuer services. Such harmonisation will require cooperation from CSDs and all other actors involved, but it can also present opportunities for developing innovative solutions to enhance shareholder rights and overall market transparency in a cross-border context.

Finally, the work on this report has highlighted a number of limitations which will have to be addressed should a further study of CSD issuer services be produced in the future. The quantitative data collected and illustrated in the many charts in this report would have to be completed with more qualitative explanations for the evolution over time to be properly assessed. The 2007 study, as well as the present survey, do not contain information on the quality of the service provided, nor on how much the services are used. Future analyses should probably include changes in the use made of existing services, as well as more details on the evolution in service features.

Annex 1: Abbreviations

The following abbreviations are used in the report:

| | |
|-------|---|
| CA | Corporate action(s) |
| CSD | Central Securities Depository |
| EEA | European Economic Area |
| GM | General meeting(s) |
| ISIN | International Securities Identification Number |
| ISO | International Organization for Standardization |
| NNA | National Numbering Agency |
| OAM | Officially appointed mechanism |
| STP | Straight-through processing |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| T2S | TARGET2-Securities |

Annex 2: Key Definitions

| | |
|-------------------------------------|---|
| Direct holding market: | A market in which end investor accounts are directly maintained at the level of the CSD (although omnibus accounts might be allowed in certain cases) |
| Downstream services: | Services provided by CSDs to securities investors or to the intermediaries holding the securities on behalf of investors |
| End Investor: | Shareholder or other natural or legal person who holds securities for his or her own account |
| Indirect holding market: | A market where end investor accounts are typically maintained at the level of CSD participants who in turn maintain omnibus accounts in the CSD |
| Insider registration: | In some markets, the CSD is responsible for collecting information on certain investors, such as those having access to privileged information, and for reporting such information to national supervisory authorities in order to prevent insider trading |
| Issuer: | Legal person (whether a company, a public or private entity) issuing securities (e.g. shares, bonds) in the financial markets |
| Mandatory corporate actions: | Corporate events where no action is required on the part of securities holders |
| Omnibus account: | A securities account opened in the name of an account provider with securities belonging to several clients of the account provider |
| Record date: | Date on which the rights of an End Investor or Shareholder, as the case may be, to participate in a General Meeting and to vote in respect of his shares, will be determined on the basis of the shares held on that date |
| Registrar services: | Maintenance of a central nominative register constituting the legal record of securities holders |
| STP rate: | The proportion of transactions using automated communication channels (whether SWIFT, web, or any other electronic format) out of the total number of transactions processed. Non-STP transactions involve manual processes such as paper, telephone, fax or email. |
| Upstream services: | Services provided by CSDs to issuers of securities or their agents |
| Voluntary corporate actions: | Corporate events on securities where the securities holders need to take action, for example by deciding whether or not take part in a tender offer |

Annex 3: List of figures and tables

Figure 1. Issuer services most frequently provided by CSDs 2

Figure 2. Users of CSD issuer services 3

Figure 3. Competition for CSD issuer services 4

Figure 4. Communication channels used for CSD issuer services 5

Figure 5. Downstream and upstream services of CSDs 6

Table 1. List of respondents 8

Figure 6. Role of the CSD in the corporate actions lifecycle – simplified overview 10

Figure 7. CSDs providing corporate action services 11

Figure 8. Direct and indirect provision of corporate action services 12

Table 2. Progress in the STP rate for CSD upstream corporate actions services since 2007 13

Figure 9. CSDs providing information services 17

Figure 10. Direct and indirect provision of information services 18

Figure 11. Role of the CSD in General Meetings – simplified overview 20

Figure 12. CSDs providing General Meeting services 21

Figure 13. Direct and indirect provision of General Meeting services 23

Figure 14. CSDs providing other issuer services 25

Figure 15. Direct and indirect provision of other issuer services 25

Table 3. Matrix for CSD issuer services 27