Executive Summary

Having witnessed the move to T+1 in the North American markets during the week commencing 27th May 2024 and the relatively smooth transition within the region, this paper is to focus on the viewpoint within European markets and the different approaches with regard to corporate actions processing. These different approaches considered the specificities of each market and could cater for the different needs of clients.

Background

With the move to T+1 in the North American markets during the week commencing 27th May 2024, many European Associations have been investigating what the impact will be to corporate actions processing for multi-listed and multi-traded securities. This is due to the key dates also changing in North America on Corporate Actions, whereby, for example, the Ex-Date will move by one business day with both Record Date and Ex-Date falling on the same date.

Four scenarios have been identified which European parties may face post the implementation of T+1, for securities which can be traded/settled on T+1 (in North America) and traded/settled on T+2 (in Europe)~~.~~ The analysis performed covers all actors within the chain from the Issuer through to the End Investor.

Within each scenario, the focus of this paper is to address the impacts on Corporate Actions and in particular a cash dividend. For each scenario, we have set out potential approaches that could be taken, the choice of which depends on the process being adopted by that particular market. While there is a preference from the asset servicing community for Model 3 (in particular for scenarios 1, 2 and, when it relates to Listed securities, scenario 4), at the time of publishing this paper, no convergence has been reached on a harmonised model. This is because of the different views amongst market actors with regards to the setting of the Ex-Date and then the processes that follow, leading to divergent preferences for either Model 2 or Model 3. Another key factor is agreement on the preferred model vs the feasibility of such preference being implemented from 'day 1'. Therefore, the purpose of this paper is to increase transparency across the industry and raise awareness of the operational implications of each scenario for different types of stakeholders. The scenarios and a possible choice of the model are provided for illustrative purposes only. Exceptions are very much possible and the specificities of ISINs, their holding chains and the local market considerations need to be taken into account. All associations listed above that have contributed to this paper should communicate this to their members to onboard and distribute to their colleagues and clients as they see fit.

The holding and account structure is somewhat complex. For those European securities which are also listed on a US Exchange, their full 'share capital' is held within DTCC. European CSDs have securities at DTCC to reflect the positions held within Europe. However, there are some exceptions to this rule.

Please note that the scenarios listed can be extended across all types of distribution events including for Stocks. The reason for focusing on a distribution event such as a cash dividend is the direct impact on the key dates, particularly the Ex-Date. However, other record date-based events are equally affected, such as voting at (A)GMs; elective rights issues; and elective tender offers.

Definitions

- ***Ex-Date***: The date from which the Underlying Security is traded without the benefit / right attached to it
  - *This is factored into the share price, whereby the share price 'drops' on the Ex-Date and from this date, the buyer is no longer buying the shares with an entitlement to the dividend.*
- ***Record Date:*** The date on which settled positions are struck in the books of the Issuer (I)CSD at the close of business to determine the entitlement to the proceeds of a Corporate Action.
- ***Listed Security:*** For the purposes of this paper, the definition of 'listed security' is the shareholding placed upon request or with express consent of the Issuer on a Regulated Market which, therefore, meets the requirements set out by the exchange and the national laws.
- ***Traded Security***: For the purpose of this paper, traded securities are securities that are traded but not "listed" on a market and are, therefore, included for trading upon request of a market participant or upon decision of the market operator. In this case, the Issuer has no legal, regulatory or commercial obligations towards the market operator.
  - Please note that a security can be listed on one or more European Exchange(s) while in addition also trades at one or more other European trading venues

Example: GE Aerospace (US3696043013)

GE Aerospace has *listed* its stock at the following exchanges:

- NYSE (New York)
- LSE (London)
- Euronext Paris (Paris)
- SIX Swiss Exchange (Zurich)

In addition, GE Aerospace stock is *traded* at various trading venues including:

- Frankfurt
- Xetra

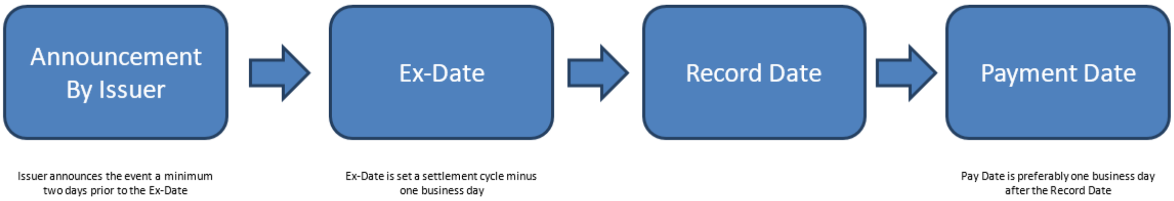
Current European Standards

European Standards for Processing Corporate Actions are defined by the Joint Working Group and T2S Market Claim Standards.

When tasked with tackling the Giovannini Barriers, the key principle of the European Standards for Processing Corporate Actions was to have a harmonised set of dates, for all types of Corporate Actions, across all European markets. This means that all Cash Distributions within the timetable of key dates are as follows:

Cash Distributions

Sequence of dates



Note that the Ex-Date is not applicable to securities in nominal, e.g. bonds

One of the key principles of setting the Ex-Date in line with the settlement cycle is the process of the CSD on distribution events.

As noted, the Ex-Date provides the traded entitlement to the dividend. Any transactions in securities which are purchased before the Ex-Date are entitled to the dividend. Participants holding the shares as at the Record Date will receive the dividend. As a result, the European CSD will detect any transactions concluded prior to the Ex-Date that did not settle by the Record Date. The CSD would then raise a 'market claim' in order to credit the 'entitled' participant of the dividend. Market claims are raised, in the majority of cases, on those transactions which failed to settle as at the Record Date (failing transactions).

<u>Potential Models on which timetable might be adopted within Europe.</u>

MODEL 1: Settlement of multi-listed securities with a North American markets nexus should be on a T+1 basis, even for securities traded on a European venue and settled in a European CSD.

Please note: This was discarded as a viable option to be implemented before the entry into force of T+1 in North America.**

MODEL 2: European key dates follow those announced by Issuer in the North American markets (Ex-Date = Record Date)

The perceived benefit of this approach is to minimise as much as possible the period where there is a difference in the share price across the Stock Exchange listings of that particular security (with the same ISIN) and avoid the European listing adjusting its share price one day prior to the share price adjustment in the North American markets.

The sequence of key dates under this model diverges with the current European Standard as described above since the Ex-Date is not being set as "settlement cycle T+2 minus one business day" (i.e. RD-1). In this model, European CSDs would be required to raise market claims on all transactions which are concluded with a 'Trade Date' of Ex-Date - 1 and remain pending at close of business day on Record date, including those with an intended settlement date on Record Date +1 as T+2 settlement cycle is being maintained.

Thus, market claims must be systematically processed for all transactions with a trade date of Ex-Date - 1.

Another consideration is that the number of true '*shareholders'* holding the security as at the Record Date would decrease, reducing transparency for Issuers. This would potentially impact 'voting rights' for Annual General Meetings and other types of Corporate Actions.

MODEL 3: European key dates follow existing European market standards (Ex-Date = Record Date – 1)

The benefits and drawbacks of this approach are the inverse of Model 2. Different ex-dividend dates across different listings of the same security will lead to potential price differences between the North American and European venues (where the European listing trades ex-dividend and the US listing trades cum-dividend on the same business day).

However, this avoids the creation of market claims on all transactions for 'trade date' Ex-Date -1, and avoids the misrepresentation of who the true 'shareholder' is on Record Date. This approach would also follow the European Standards for processing Corporate Actions.

Scenarios

Scenario 1: North American Issuer with a listing on an Exchange in North America and a listing on a European Exchange (both listings same ISIN)

- Within Europe, the settlement cycle will remain T+2 however the settlement cycle in North America is now T+1.
- Within North America, the Ex-Date is the same date as the Record Date.
- There is an expectation the information regarding the Corporate Event will come from the Issuer / European Agent, who is acting on behalf of the Issuer.
- The Issuer may employ its dividend announcement or dividend timetable to provide differentiated Ex-div dates for each of its listings. Therefore, the Issuer or its agent may specify an Ex-div date that is based upon the prevailing settlement cycle applied for its European listing(s).

Scenario 2: European Issuer with a listing on an Exchange in North America and a listing on a European Exchange (both listings same ISIN)

- Within Europe, the settlement cycle will remain T+2 however the settlement cycle in North America is now T+1.
- In most cases, DTCC, under their T&Cs, will become the *Issuer CSD*.
- Within North America, the Ex-Date will be set in line with all other domestic assets, therefore the Ex-Date and Record Date will fall on the same business day.
- Where DTCC is deemed the Issuer CSD, the expectation is that the Issuer will have a Registrar / Issuer Agent within Europe processing the Corporate Action.
- The Issuer may employ its dividend announcement or dividend timetable to provide differentiated Ex-div dates for each of its listings. Therefore, the Issuer or its agent may specify an Ex-div date that is based upon the prevailing settlement cycle applied for its European listing(s).

<u>Scenario 3: North American Issuer with a listing in North America and trading on a European trading venue but NOT listed on a European Exchange.</u>

- North American securities, being made available for trading on a European trading venue.
- Settlement of these securities takes place in the European CSD linked to that trading venue.
- Within Europe, the settlement cycle will remain T+2 however settlement cycle in North America is now T+1.
- Within North America, the Ex-Date is now the same date as the Record Date.
- The European CSD will create the Corporate Action with the key dates as announced by the Issuer in the North American markets.
- Therefore, the European CSD will need to create market claims based on all transactions with a trade date prior to the Ex-Date.
- Those CSDs that settle the transactions booked on the trading venue might either have a direct account at DTCC (or another North American CSD) and therefore they will receive the information as announced directly from the CSD or use a local agent and receive the information from them.
- Any settlement that will occur in the European CSD is highly likely to be amongst 2 participants within the same CSD. It is <u>not</u> envisaged that there will be any x-CSD transactions.

<u>Scenario 4: Either a European Issuer or North American Issuer, with a listing on an Exchange in North America, a listing on a European Exchange and traded on a European trading venue.</u>

- This scenario is the most complex.
- Within Europe, the settlement cycle will remain T+2 however the settlement cycle in North America is now T+1.
- Trading of these securities takes place in Europe and settlement of these transactions will take place in the European CSD linked to the Exchange / trading venue.
- Within North America, the Ex-Date will now be the same date as the Record Date post the implementation of T+1.
- The Issuer may employ its dividend announcement or dividend timetable to provide differentiated Ex-div dates for each of its listings. Therefore, the Issuer or its agent may specify an Ex-div date that is based upon the prevailing settlement cycle applied for its European listing(s).

<u>Additional conclusion points</u>

- The scenarios articulated throughout this paper are based on a vanilla Corporate Event: a cash dividend. The impacts on differing settlement cycles across two markets are potentially increased when the Corporate Event requires 'shareholder' action. In any elective reorganisation Corporate Event, the 'last trading date' (the last date on which the shares will be listed) will differ. This date must be one day earlier in Europe than within the North American market. The reason is that, in order to protect the buyer and allow them to participate in the event, the settlement must be available prior to the market deadline.
- For any Corporate Event that is announced, it is recommended that all actors in the holding chain review the information closely and also review where the position is held in order to familiarise themselves with the expected process which will be applied.
- The challenge for the CSD holding these securities is knowing how the securities settled into the CSD participants account, whether it was i) via an OTC trade or ii) via the Trading Venue or iii) both. In the instance where the position held is a result of both, the CSD may only be able to create one event. Therefore, it will depend on the information the CSD receives which determines which process to follow.

- **As at the date of publication of this paper a harmonised approach of the various models has not been achieved throughout Europe.**
- European CSDs in cooperation and agreement with the other market operators will analyse all applicable information in order to ascertain which model to apply by checking the following:
    1. Is there a European listing to check if the key dates announced follow the 'European timetable';
    2. Is the security available for trading on a European Trading venue;
    3. or both of the above.

All market operators will have to carefully consider the impacts of this fragmented approach and, if necessary, evaluate solutions to overcome any potential issues.

Whilst it is deemed limited in scope there could be instances where Scenario 4 occurs, which could result in the European CSD needing to have the ability (1) to create two Corporate Actions, with different Ex-Dates and (2) to raise Market Claims based on trading activity on the European Stock Exchange (following the European Settlement cycle) and (3) also raise Market Claims for those transactions on the European Trading Venue where the security is traded and not listed and, hence follows the foreign settlement cycle.

Below are some examples of securities which fall into the various scenarios listed. Readers of this paper are encouraged to resource data on securities to establish the applicable process which should be applied.

- Example: GE Aviation Aerospace (US3696043013) – Listed on multiple Exchanges across North America (e.g., NYSE) and Europe (e.g., Euronext Paris) but is only multi-traded for German stock exchanges.
- Example: CRH plc (IE0001827041); Deutsche Bank AG (DE0005140008) – European Issuers with a listing on both a North American and European Exchange
- Example: Apple US0378331005 – Listed only in North America but traded on various European Trading Venues
- Example: RENEW ENERGY GLOBAL PLC (GB00BNQMPN80); Technip FMC plc (GB00BDSFG982) – European Issuers solely listed on a North American Exchange.

The Associations that provided the information in this paper have done so on a best-effort basis and will continue to support the work and the analysis in the EU Industry T+1 Task Force to provide recommendations of how Europe might eventually transition to a T+1 settlement cycle, and for any potential harmonisation initiatives in the four scenarios listed.