

# DIVIDENDS WITH OPTIONS

## PROPOSED PROCESSING CHANGES

September 2016

### Speakers

Andy Callow  
Senior Manager, Global Capital Markets  
Gary Ball  
Head of Corporate Services

CERTAINTY

INGENUITY

ADVANTAGE

Computershare

# Agenda

1

- What's happening?

2

- Background to the market standards

3

- What is an Interim Security?

4

- Impact on Dividend Timetable

5

- Challenges faced

6

- Practical considerations

7

- What is the consultation asking?

8

- What are the timescales?

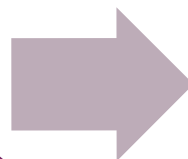
9

- Questions

# What's happening?

Euroclear has issued a long awaited consultation on Dividends with Options

- The deadline for market participants to respond is 7th October 2016



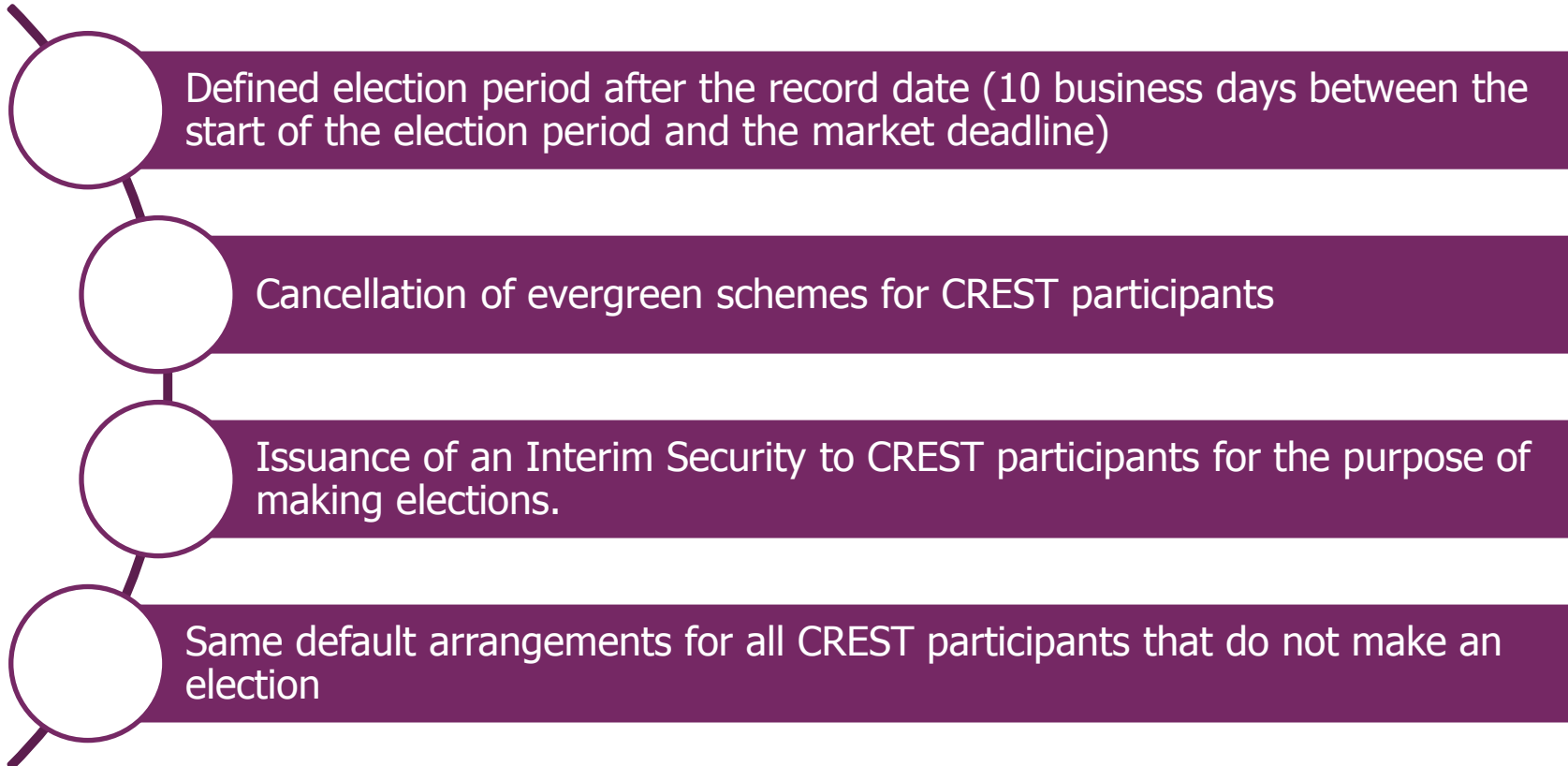
Euroclear previously published a straight through processing paper on 1 March 2013 endorsing a set of European Market Standards

- Initiated by the Corporate Actions Joint Working Group – the standards include the following requirement: **“...Distributions with options should be represented by an interim security with an official ISIN”**

- > **Note:** The payment of dividends through CREST is also part of the European Market Standards. To meet market demand, driven by your largest shareholders, we now support this capability

# Background to the market standards

- › Developed as a harmonisation initiative in response to the Giovannini Barriers
- › UK & Ireland already have a very high level of compliance
- › In relation to this requirement the Market Standards for Corporate Actions promote:



# What is an Interim Security?

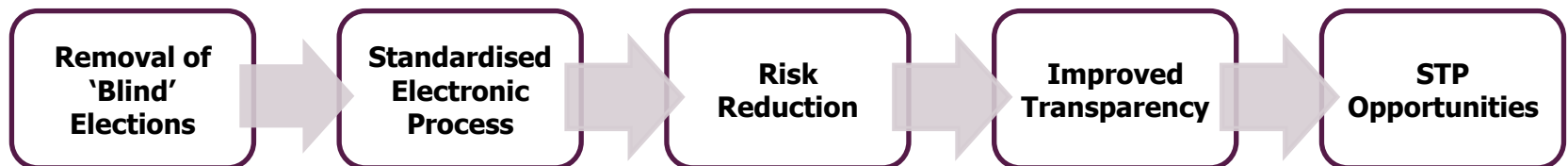
Dedicated non-tradable ISIN established for an Issuers dividend  
Separate Corporate Action set up for every new Dividend Entitlement  
(Electronic Election Entitlement EEE)

We send an EEE in the Interim Security to each qualifying CREST holder for them to elect upon

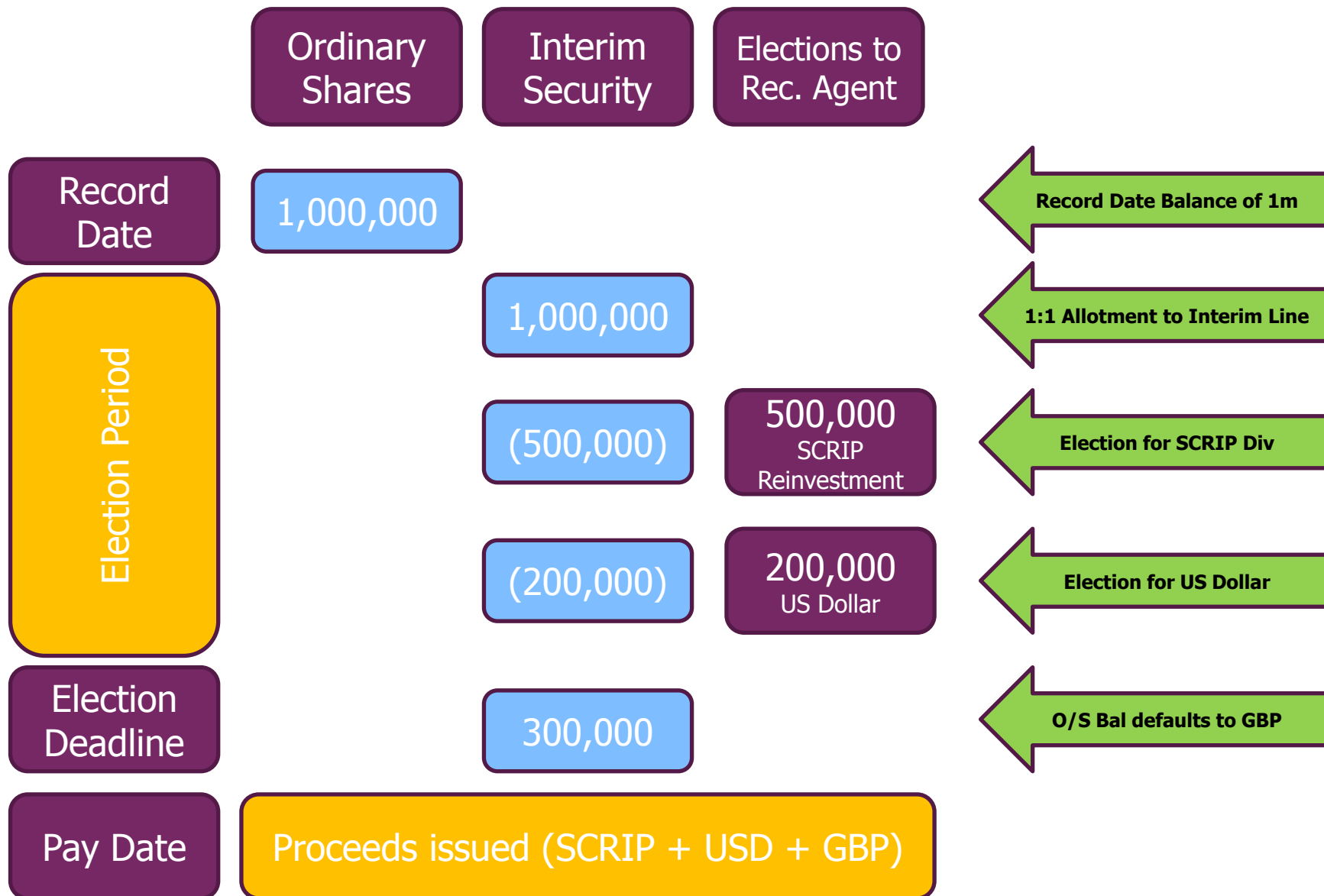
For elections other than the default option, the Participant sends USE messages to a dedicated Receiving Agent account through CREST

No change to certificated shareholders

## Benefits?

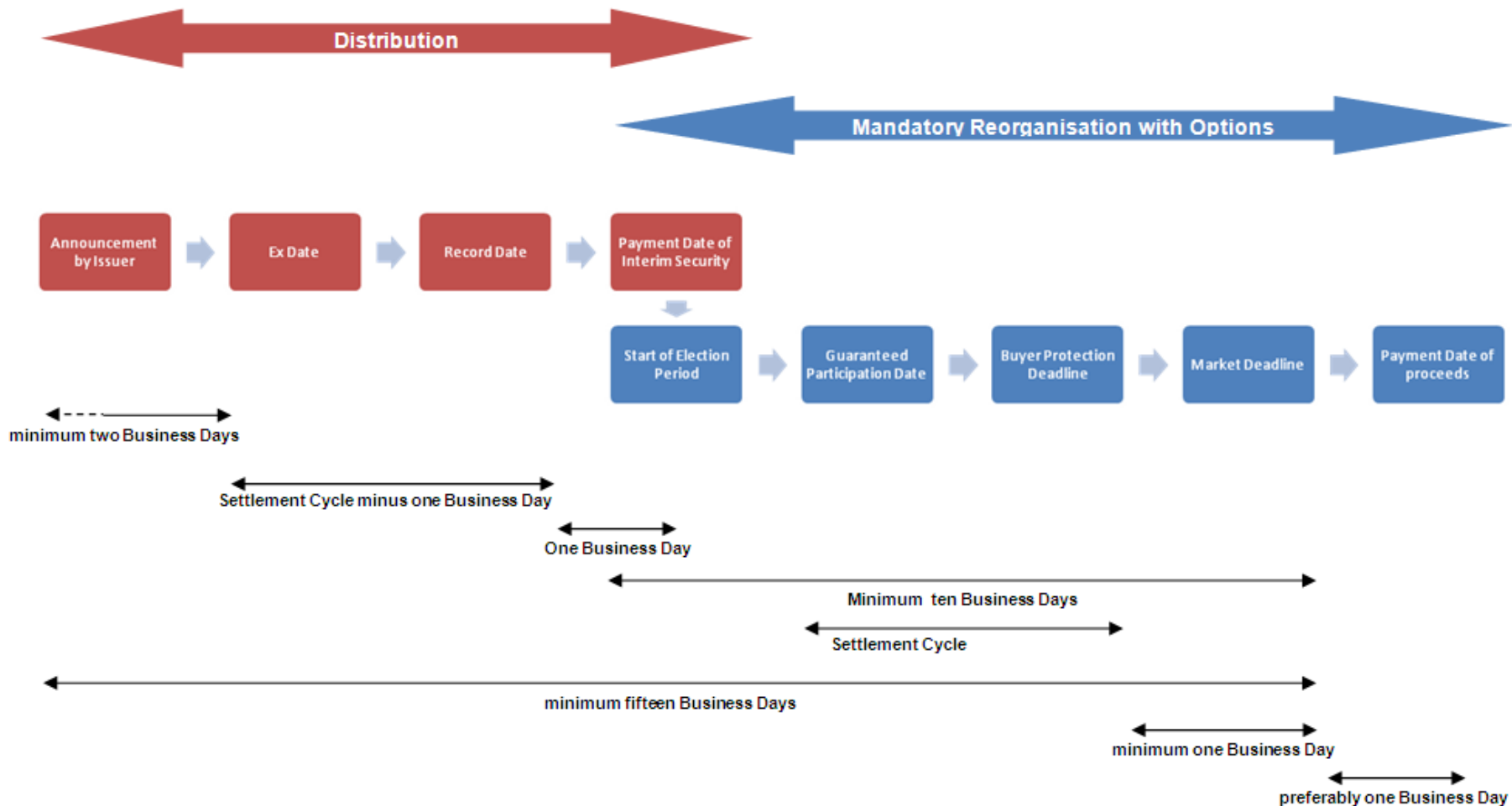


# Example – GBP Default with SCRIP & USD Option



# Impact on Dividend Timetable

## > Distributions of Dividends with Options – Overall Sequence of Dates



# Challenges faced

Many different arrangements exist between Registrars, Issuers and the institutional investor community in relation to elective dividends covering SCRIP, Dividend Re-investment Plans (DRIP) and currency elections.

The key issues are:

Companies that apply a record date cut-off with no dedicated election period

Special domicile arrangements causing issues for investors, CREST and Registrars

Complex system logic for currency elections where currency is based on domicile, but an election for an alternative currency may be possible

Partial elections not universally available

Some events cannot be handled entirely in CREST

Some currency elections are forced to be made as an evergreen election whereas SCRIP / DRIP are non-evergreen



## Challenges faced



Some custodians object to arrangements where they are forced to lodge evergreen instructions, as opposed to making an election each time



Some retail brokers are concerned at the requirement to seek an election from their clients for every dividend, and favour evergreen elections



The dividend timetables for some Issuers do not allow for currency elections to be submitted through CREST



Increased risk of financial exposure when existing complex arrangements cannot be handled in CREST and forms are processed in error



Participation rates for elective events could reduce with the abolition of evergreen arrangements

# Practical considerations

Standard	Condition	Impacts
Dedicated ISIN for an Issuers dividend	Set up Interim Security for every Issuer dividend	<ul style="list-style-type: none"> <li>&gt; Additional cost in development</li> <li>&gt; Securities Application Form (SAF)</li> <li>&gt; CREST messages to distribute EEE will incur CREST fees</li> </ul>
Issuance of an Interim Security	<p>Not every Issuer allows a partial instruction</p> <p>Straight through processing</p>	<ul style="list-style-type: none"> <li>&gt; We send an entitlement credit in the interim security for each qualifying CREST holder</li> <li>&gt; Partial available for currency and for stock elections</li> <li>&gt; Paper based elections where dividend event does not exist (in CREST) on election date</li> <li>&gt; Dividend participation is both paper form and CREST election</li> </ul>
A defined election period	Some Issuers apply a cut off with no dedicated election period	<ul style="list-style-type: none"> <li>&gt; Record Date and last day are the same</li> <li>&gt; Will require 10 day election period under new regime</li> </ul>
Cancellation of evergreen schemes for CREST participants	Not all Issuers offer evergreen schemes or only applies to certain dividend elements	<ul style="list-style-type: none"> <li>&gt; Currency, SCRIP, DRIP can be evergreen</li> <li>&gt; Dividend plan rules would need to change</li> <li>&gt; Causes issues for straight through processing (paper and CREST election both necessary)</li> </ul>
Same default arrangements for all CREST participants	Lack of transparency and offers variable dividend options to different shareholder types	<ul style="list-style-type: none"> <li>&gt; Currency based on domicile but can elect for alternative currency</li> </ul>
Implementation Issues	<p>Communication</p> <p>Co-ordination</p>	<ul style="list-style-type: none"> <li>&gt; Certificated holders unaffected so comms will be focussed on CREST holders</li> <li>&gt; Will all Issuers conform from a fixed date?</li> </ul>

# What is the consultation asking?

- 1 ? Is a streamlined approach to processing dividends with options the right solution?
- 2 ? Should terms and conditions of events be revisited to maximise STP?
- 3 ? Should an interim ISIN be re-used for subsequent dividends or a new one used each time?
- 4 ? Should a new Corporate Action type be created?
- 5 ? Should partial elections be permitted?
- 6 ? Should the default distribution channel for proceeds be the CREST system?

# What are the timescales?

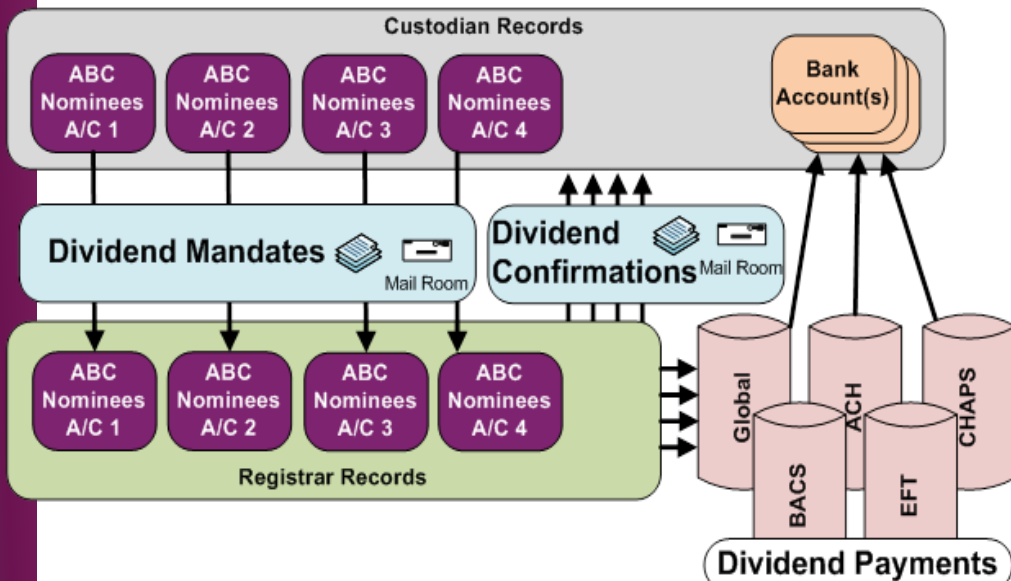


- Issuers are encouraged to respond directly to the consultation [available here](#)
- We will also be responding. If you would like your feedback to be included in our response please email [andy.callow@computershare.co.uk](mailto:andy.callow@computershare.co.uk) or [gary.ball@computershare.co.uk](mailto:gary.ball@computershare.co.uk) by **30 September 2016**

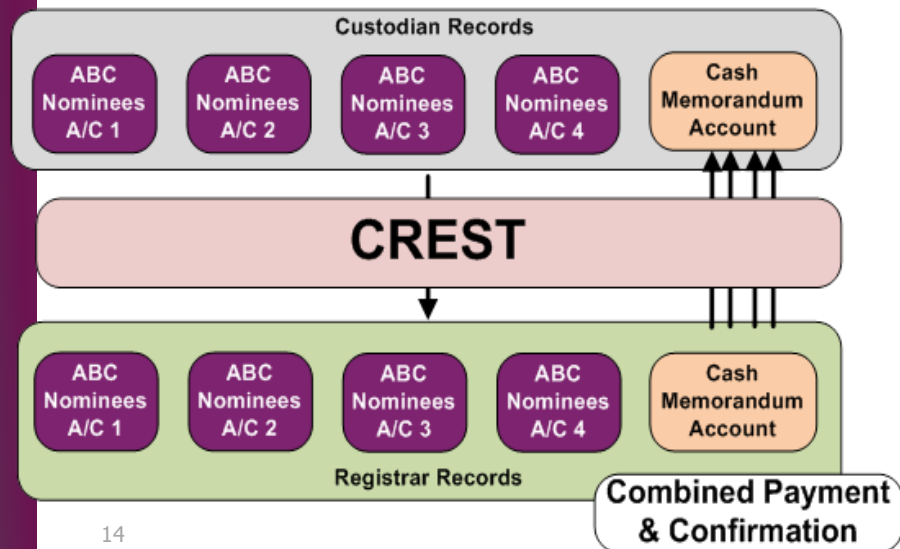
# Questions?



# Dividend payments through CREST - explanation



- > Multiple mandate instructions
- > Physical mail
- > Manual reconciliation of mandates
- > Complex USD/EUR arrangements
- > Physical dividend confirmations



- > Single mandate instruction for all Issuers
- > Mandate and payments sent via CREST
- > Electronic Dividend Confirmations
- > Simple GBP/USD/EUR solution