



# Corporate Actions and Other Entitlements White Paper

October 2002

## EXECUTIVE SUMMARY

### 1. Purpose

This white paper:

- **Analyzes current practices and standards for processing entitlements**, including corporate actions, and identifies related inefficiencies and risks
- **Sets out views on what must change to allow the straight-through processing (STP) of entitlements** – the processing of entitlements related to securities from beginning to end of the processing chain without manual intervention – and
- **Seeks comments from all stakeholders in Canadian securities markets** on the perceived benefits and challenges of, and proposed solutions for, more efficient entitlement processing.

### 2. Context

As securities transaction volumes and volatility have generally increased over the past decade, pressure in capital markets globally has grown to improve systems, processes and risk management mechanisms to cope with these changes. This moved U.S. capital markets to set a target to reduce the settlement cycle to one day after trade date (T+1) rather than the current three days (T+3) by implementing STP methodologies. Canadian institutional and retail market stakeholders, through the Canadian Capital Markets Association (CCMA)<sup>1</sup>, reviewed this development and confirmed the need to move to T+1 and adopt STP improvements concurrently with the U.S. because of the benefits implicit in doing so and the economic costs associated with not changing, as set out in the table below<sup>2</sup>:

<b>Benefits of Moving to STP/T+1 with U.S.</b>	<b>Costs of Not Moving with the U.S</b>
<ul style="list-style-type: none"><li>• By improving processing and settlement efficiency, we can expect to see:<ul style="list-style-type: none"><li>• Fewer errors</li><li>• Lower operating costs</li><li>• Reduced operational, market, settlement and systemic risks</li><li>• Greater competitiveness of Canadian capital markets.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• If Canada were to remain at T+3 when the U.S. moves to T+1 or not match STP improvements in the U.S. marketplace, Canada would almost certainly see higher costs and higher risk than in the U.S.</li><li>• With North-American securities markets so highly integrated, significant differences between the</li></ul>

<sup>1</sup> The CCMA was formed in 2000 to promote securities industry initiatives such as STP and T+1. The CCMA has a wide range of industry members, including representatives of broker/dealers, custodians, transfer and paying agents, credit unions, banks, investment managers, clearing houses, insurance companies and associations, with federal and provincial regulators as observers. Background on the CCMA, its objectives, the benefits and challenges of STP/T+1 and CCMA committee white papers can be found on the CCMA Web site at [www.cma-acmc.ca](http://www.cma-acmc.ca).

<sup>2</sup> The consequences of *not* moving to T+1 with the U.S. was assessed in a November 2000 economic analysis commissioned by the CCMA and published by Charles River Associates (CRA); this paper can be found on the CCMA Web site on the Media/Publications page.

Benefits of Moving to STP/T+1 with U.S.	Costs of Not Moving with the U.S
<ul style="list-style-type: none"> <li>In North America's competitive securities industry, these benefits should translate into improved prices for trades for the final investor.</li> </ul>	two marketplaces could result in some trading activity (including the related jobs and other economic benefits) moving south, given the natural flow of transactions to the U.S., the marketplace with the narrower bid-ask spreads and greater liquidity.

The intention to promote greater straight-through processing and move institutional and retail capital markets to T+1 prompted Canadian securities market stakeholders, including regulators, to consider all aspects of the securities processing cycle that could be an impediment to STP and T+1. To this end, the CCMA Board of Directors formed a number of committees, including the **Corporate Actions Working Group (CAWG)**, which is composed of a cross-section of industry representatives with extensive experience in all aspects of entitlements, including corporate actions.

In May of this year, the U.S. Securities Industry Association (SIA) announced that it would re-examine its June 2005 target implementation date for shortening the securities settlement cycle to T+1 from T+3. In July 2002, the SIA concluded that the industry would focus on STP in 2003 and 2004, rather than on moving to T+1 in 2005 and said that shortening the settlement period should be evaluated again in 2004.

Given the conclusions in the November 2000 Charles River economic analysis that there was no benefit for Canada in moving equities settlement to T+1 ahead of the U.S., and consistent with the CCMA's stated general strategy of maintaining the same settlement cycle as the U.S., the CCMA announced on July 19, 2002, that it would defer its announcement of a possible change in the settlement period until 2004 and focus on achieving STP in Canada.

While STP of entitlements is not critical to the STP of institutional and retail transactions, it supports industry-wide STP of trading and settlement as delays in receipt of entitlement payments can lead to failure of downstream transactions in a chain, requiring manual intervention, with little time to correct the problem. More importantly, there are major problems in entitlement processing that could and should be addressed by significantly improving the straight-through processing of entitlements to improve the efficiency of the Canadian marketplace. The analysis and recommendations here are relevant in the T+3 and T+1 settlement environments so that, whether or not the U.S. re-instates a T+1 date in or after 2004, Canadian industry participants will be ready and can maintain the competitiveness of Canada's capital markets.

### 3. Deliverables and Scope of This White Paper

Entitlement "events" involve the calculation and payment to a securities holder of cash and/or securities, whether mandatory – ones where the beneficial holders will receive the entitlement without having to make a decision (e.g. repayment of

principal at maturity or dividends) – or voluntary – ones that beneficial holders may or may not decide to accept (e.g. tenders). Entitlements include corporate actions, defined as anything that affects corporate share or debt structure or payments related to these, including but not limited to:

- Corporate reorganizations – a merger or acquisition, leveraged buy-out or tender offer
- Special stock transactions – a split, rights offering, conversion, odd lot program
- Changes in capital structure, whether through flotation, merger, takeover or a capital reorganization.

While the significant impediments to the straight-through processing of entitlements relate to corporate actions, other entitlement payments can be problematic too. As noted above, delays in receipt of income entitlements, such as the late or non-receipt of interest or dividends that may be needed to pay for purchases of securities, bring with them risk and costs as downstream transactions in a chain may also fail.

Entitlement events thus range from the simple payment of interest to complicated company reorganizations with multiple options that make them difficult to manage operationally for financial intermediaries and difficult for investors to understand and select the right option. The focus of this paper is all aspects of corporate actions and, with respect to other entitlements, the payments aspect, which remains the main obstacle to STP. The ideal for STP is that the life cycle of an entitlement, from announcement/tendering through payment/final distribution and reconciliation, all occurs electronically.

#### **The CAWG's mandate is:**

- To identify corporate action activities that are directly impacted by the move to STP/T+1 settlement and develop approaches to resolve any associated problems that may occur in the transition
- To work with U.S. counterparts to ensure consistency of process and practice wherever possible
- To develop an implementation plan that will ensure that the processing of corporate actions works in an STP/T+1 environment to ensure the best possible service to investors while avoiding market dislocation and additional liability.

**The CAWG determined (and reconfirmed after the July change to an STP focus) that the scope of its work would encompass** consideration of a broad range of entitlements process improvements, which might be reflected in standards and best practices, amended or new legislation, regulation, rules or the like. The focus of improvements was, in turn, agreed to be entitlements related to a broad range of securities – debt, equity or other – of listed or unlisted companies and any other securities issuers that may be subject to prospectus, offering documents or other filing requirements, and including both public distributions (e.g. issuers of municipal government securities) and private placements. Specific major areas of focus include:

- Entitlements where inefficient processes in a T+3 environment would make processing in a shortened settlement cycle more complex and risky, including those in relation to equity, debt and mutual/segregated (seg) fund products
- Entitlements relating to products currently already settling on a shorter cycle, such as money market instruments that settle on trade date (T), to ensure consistency of processing across all products
- Entitlements related to securities out on loan under securities lending programs, which may present particular challenges
- Entitlements associated with global issues to reflect the growing market of international investors interested in Canadian securities issues and, equally, the growing number of Canadians investing outside Canada
- Communications to interested parties on the recommendations arising from the foregoing

**and exclude:**

- Aspects of entitlement processing that are already subject to STP and processed in an automated fashion
- Improvements in entitlement processing already underway through the Entitlements Task Force under the auspices of the Canadian Depository for Securities Limited (CDS) (e.g. review of events currently not processed by CDS, such as Dutch auctions and odd lot offers, which will be accommodated on CDS's new clearing and settlement system; confirmed initiatives related to processing efficiencies, such as the timing of new securities being reflected in CDS participants' ledgers for certificate exchanges, etc.)
- Automation of the exchange process between intermediary and investor – as noted above, the STP goal is the processing of entitlements related to securities from beginning to end of the processing chain without manual intervention, which is highly challenging given the multiple parties in the entitlement-handling process and the exchanges of information required between intermediaries and investors; while firms are encouraged to automate the relationship with their clients where possible, the complexity of events will make this difficult to achieve.

**Note:** The CAWG continues to examine these issues in a T+1 context as the T+1 goal could be reinstated when shortening the settlement cycle is reviewed next, likely in 2004.

**The CAWG white paper supplements the work of, and is supplemented by input from, the CCMA's other committees.** These include the Institutional and Retail Trade Processing Working Groups, Dematerialization Working Group, Securities Lending Working Group, Legal/Regulatory Working Group and

Communications and Education Working Group (refer [www.ccma-acmc.ca](http://www.ccma-acmc.ca) for information on the work of these committees).

This paper includes the following sections:

1. Introduction
2. Background
3. Challenges/Problems with Current Systems/Procedures and Principles for Change
4. Analysis/Options/Proposed Solutions to Reach STP/T+1
5. Going Forward – proposed implementation schedule, request for comments, expected next steps.

**Appendix A** sets out a summary of principles for change and recommendations. Other appendices to the white paper list CAWG members, the different types of entitlements and their particularities with current filing requirements, examples of the complexity of corporate actions and the current CAWG action plan.

#### 4. Background

**The processing of entitlements is one of the most complex and error-prone tasks in the Canadian securities industry due largely to the difficulty of obtaining timely and accurate information on event details and the lack of industry standards.** A GSCS Annual Survey (1997-1999) suggested that Canada's undisciplined entitlement-management process contributes to lowering Canada's standing in world rankings, citing Canadian custody client criticisms regarding corporate action handling as follows:

- "Corporate action offer notifications are always well after the companies have amended the tenders..."
- "Corporate action advices via SWIFT are not useful enough. They don't write the necessary details on it... SWIFT for settlement advices are quick and good. SWIFT for corporate actions are incomplete and have no useful details."
- "Well developed, automated market environment coupled with systems sophistication enables [a major Canadian custodian] to offer a very efficient service. Highlighted shortfalls in service (dividend reinvestment plans and some corporate action event notifications) primarily relate to market issues not specific to [the major Canadian custodian]..."

**The sheer volume of entitlements today explains the urgency of efforts to improve entitlement processing.** In 2001, there were:

- approaching 93,000 entitlement events processed, each routinely involving many times that number of individual transactions as each of these events must also be processed by a broker or custodian to deliver the entitlement to the individual ultimate beneficial holder's accounts.
- \$2.6 trillion in entitlements processed (cash only), including:
  - Interest: \$57.9 billion

- Dividends: \$14.5 billion
- Corporate Actions: \$125.0 billion
- Money Market Maturities: \$2.4 trillion

Each entitlement can impact hundreds of thousands of clients. Not receiving notice of a corporate action exposes firms and their investors to late payments, investment and market risks, loss of interest and lost opportunities.

**As research for the white paper, the CAWG also investigated best practices in other countries, which provided useful options for Canada's consideration.** As well, the CAWG reviewed market practices of our major trading partner, the U.S. The U.S. Securities Industry Association identified significant problems in the corporate actions area as an impediment to straight-through processing and T+1.

## 5. Challenges/Problems with Current Systems/Procedures

**Current entitlement-related challenges in moving to STP/T+1 are similar, but not identical, to the processing challenges faced in the institutional and retail markets generally.** They include, but are not limited to:

- Manual processes and duplication of/unnecessary effort
- Need for standards and standardized procedures – standard information sources, standard timing, standard format and standard action
- Need to reduce reliance on paper (documentation, cheques, certificates)
- Money movement issues
- Legal/regulatory impediments, including where the lack of legislation, regulations or rules is the obstacle
- Need for additional incentives/compliance mechanisms to achieve adherence to standards and market practice
- Need for effective communications.

These problems are discussed in the context of specific aspects of entitlement processing as follows:

- a. Dissemination of corporate action announcements
- b. Trading and settlement of trades on/securities lending arrangements relating to issues undergoing a corporate action
- c. Payments/securities delivery due as a result of a corporate action
- d. Proxy voting and shareholder communications
- e. Physical certificates
- f. Global issues
- g. Foreign exchange issues
- h. Liability issues
- i. Legal issues
- j. Communications issues.

How well proposed changes address one or more of these problems forms the criteria for assessing recommendations for solutions and the principles for change.

## 6. Analysis/Options/Proposed Solutions to Reach STP/T+1

In reviewing alternatives and proposing solutions reflected in **Appendix A**, the CAWG worked to balance the needs and interests of the many stakeholders in the entitlement-handling process with the prime driver being the investor. As summarized in the table below (the brackets following each item cross-reference to the recommendations in the appendix):

- Where the greatest benefits of STP could only be achieved by ensuring broad participation in the solution, legally enforceable standards were recommended (in both cases, these recommendations have been made previously by the CCMA)
- Where considerable benefit could be achieved through a narrower group of industry participants, standards and best practices were recommended
- Where additional analysis would be beneficial in a number of technical areas, this was so noted
- Finally, communication with key stakeholders was identified as beneficial in promoting STP in other areas.

Regulation	Standards	Research Further	Update/ Communications
Central entitlement hub: Mandate entitlement reporting to central hub, reporting standards and compliance measures (#a.i, #a.ii, #a.iii)	Standardize payment process, compliance measures, compensation parameters (#c.ii)	Further analyze investment fund impacts (#a.iv)	Publicize Canadian Depository for Securities (CDS) cutoff times (#c.iii)
Mandate entitlement payment by Large Value Transfer System (LVTS) to recognized depositories (#c.i)	Update and communicate solicitation fees standard (#c.v)	Further analyze time zone impacts (#a.v)	Promote electronic voting and shareholder options (#d.i)
	Set physical certificate turnaround standards (#e.i)	Further analyze corporate actions of securities in the process of trading and settlement/ under securities lending arrangements (#b.i):	Communicate with issuers, agents, other stakeholders (#j.i)
	Co-ordinate standards/ practices/rules with U.S., U.K., others (#f.i)	Further analyze share exchange process (#c.iv)	
	Set liability standards/ practices and	Further analyze foreign exchange issues (#g.i)	

Regulation	Standards	Research Further	Update/ Communications
	compliance measures (#h.i)		
		Further analyze legal issues (#i.i)	

## 7. Going Forward

Addressing these problems will involve a combination of systems development and operational process improvements. **The industry's ability to achieve meaningful improvements will depend on co-operation among all stakeholders in the end-to-end entitlement-processing chain.**

**To move ahead, the CAWG and CCMA need feedback from you and the broadest possible range of other stakeholders in the Canadian securities industry that are impacted by the current treatment of entitlements. Specifically, the CAWG:**

- Seeks comments on the perceived benefits and challenges of, and proposed solutions for, a move to STP/T+1 from the perspective of entitlements and, in particular, corporate actions.
- Solicits comments and feedback to support the development of industry standards and processes that will allow for a smooth transition from the current T+3 environment to STP/T+1.
- Requires specific input on the following subjects:
  1. Challenges: Have we accurately captured all of the key problems in the current environment?
  2. Processes: Is the flowchart of current processes accurate and are the flows and timing proposed to achieve STP achievable and practical?
  3. Liability: Have we accurately reflected the liability within the current system and proposed effective methods to clarify these relationships?
  4. Recommendations: Do you agree with the specific recommendations for change as being the most cost-efficient and effective or are there any that you would amend and, if so, how?
  5. Action plan: Is there anything that is missing or should be changed in the proposed work schedule? At a high level, the schedule is:
    - Issue white paper/addendum setting out problems and solutions for entitlement processing, including establishment of a mandated central entitlement reporting hub (November 2002/February 2003)
    - Design a common set of standards and processes that achieves stakeholder agreement and facilitates corporate action STP processing, identifying regulatory changes (May 2003) and standards and best practices (August 2003)

- Monitor the evolution of the potential corporate hub proposal (2003 and 2004)

**Please send your written comments on the above via e-mail, fax or mail by December 31, 2002, to:**

Ms. Anita Mehta  
Chair, Corporate Actions Working Group  
c/o: Ms. Rosa Sosin  
Canadian Capital Markets Association  
10<sup>th</sup> Floor, 85 Richmond Street West  
Toronto, Ontario, Canada M5H 2C9  
E-mail: [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca)  
Fax: 1 (416) 365-8700  
Tel: 1 (416) 815-2046.

## **8. Expected Next Steps**

Comments received from interested stakeholders will be shared with the CAWG so that the proposed procedures, legislative/regulatory changes, communications required and implementation steps can be finalized. An unattributed summary of comments received will be publicized via the CCMA Web site so that respondents can be assured that their input has been heard.

The comments will be analyzed and the proposed model refined, with any significant points of disagreement to be discussed by the Canadian Capital Markets Association Board of Directors and/or the relevant industry association(s).

**A final plan, as well as dissemination and implementation steps, will be publicized in 2003.** In the interim, the CCMA will begin work to address the challenges identified in this paper. Individuals interested in participating in this initiative are invited to contact the CCMA at the co-ordinates above.

# TABLE OF CONTENTS

## Executive Summary

### Table of Contents

- 1. Introduction**
  - a. Canadian Capital Markets Association and STP/T+1
  - b. Corporate Actions Working Group
  - c. CAWG Deliverables and Scope
  
- 2. Background**
  - a. Definitions
  - b. Overview of the Current Entitlement-Processing Environment
  - c. Comparisons with the U.S.
  - d. Comparisons with Selected Other Markets
  
- 3. Challenges/Problems with Current Systems/Procedures and Principles for Change**
  - a. Dissemination of Corporate Action Announcements
  - b. Trading and Settlement of Trades on/Securities Lending Related to Issues Undergoing a Corporate Action
  - c. Payments/Securities Delivery Due as a Result of a Corporate Action
  - d. Proxy Voting and Shareholder Communications
  - e. Physical Certificates
  - f. Global Issues
  - g. Foreign Exchange Issues
  - h. Liability Issues
  - i. Legal Issues
  - j. Communications Issues
  
- 4. Analysis/Options/Proposed Solutions to Reach STP/T+1**
  - a. Dissemination of Corporate Action Announcements
  - b. Trading and Settlement of Trades on/Securities Lending Related to Issues Undergoing a Corporate Action
  - c. Payments/Securities Delivery Due as a Result of a Corporate Action
  - d. Proxy Voting and Shareholder Communications
  - e. Physical Certificates
  - f. Global Issues
  - g. Foreign Exchange Issues
  - h. Liability Issues
  - i. Legal Issues
  - j. Communications Issues
  
- 5. Going Forward**
  - a. Proposed Implementation Schedule
  - b. Request for Comments
  - c. Expected Next Steps

## **Appendices**

- A. Summary of Principles for Change and Recommendations
- B. Members of Corporate Actions Working Group
- C. Types of Entitlement Events/Current Filing Requirements
- D. Examples of Complexity of Corporate Actions
- E. CAWG Implementation Schedule

## 1. INTRODUCTION

As securities transaction volumes and volatility have generally increased over the past decade, pressure in capital markets globally has grown to improve systems, processes and risk management mechanisms to cope with these changes. This moved U.S. capital markets to set a target to reduce the settlement cycle to one day after trade date (T+1) rather than the current three days (T+3) by implementing straight-through processing (STP) – the automatic processing of entitlements related to securities from beginning to end without manual intervention. The beneficiaries of a move to STP/T+1 settlement include:

- **The financial system overall:** The move to STP/T+1 would strengthen our financial markets by reducing systemic risk and keep Canada competitive *vis à vis* the U.S. and globally.
- **Securities market firms:** STP/T+1 would necessitate the increased automation of trade processing, which would, in turn, reduce operational risks and costs associated with securities trades, while improving productivity and reducing collateral requirements.
- **Investors:** STP/T+1 and greater automation would reduce transaction risk, improve service and ultimately result in improved prices for trades. Investors would have faster access to the proceeds of the sale of their securities and benefit earlier from the rights associated from securities ownership when they buy. The move to more automated straight-through processing required for STP/T+1 implementation would support round-the-clock trading now demanded by a growing number of investors.

The intention to promote greater straight-through processing and move institutional and retail capital markets to T+1 prompted Canadian securities market stakeholders, including regulators, to consider all aspects of the securities processing cycle that could be an impediment to STP and T+1. They also recognized the need for a single cross-industry entity to promote action on STP/T+1 in a co-ordinated fashion across the financial sector, leading to the creation of the Canadian Capital Markets Association.

### a. Canadian Capital Markets Association and STP/T+1

The Canadian Capital Markets Association was formed in 2000 to promote securities-industry-wide initiatives such as the move to T+1 and to the straight-through processing that this would require. The CCMA is composed of representatives of a wide range of industry members, including broker/dealers, custodians, transfer and paying agents, credit unions, banks, investment managers, clearing houses, insurance companies and associations, with federal and provincial regulators as observers. Background on the CCMA and its objectives, and on the benefits and challenges of STP/T+1, can be found on the CCMA Web site at [www.ccma-acmc.ca](http://www.ccma-acmc.ca). The Web site also includes a study of the

consequences if Canada does not keep pace with the U.S. (see footnote 2).

**b. Corporate Actions Working Group**

To promote greater straight-through processing and move institutional and retail capital markets to T+1, the CCMA Board of Directors formed a number of committees, including the Corporate Actions Working Group (CAWG). The work of the CAWG white paper includes input from and supplements the work of other CCMA committees. These include the Institutional Trade Processing Working Group (ITPWG), Retail Trade Processing Working Group (RTPWG), Dematerialization Working Group (DWG), Securities Lending Working Group (SLWG), Legal/Regulatory Working Group (LRWG) and Communications and Education Working Group (CEWG). For information on the work of these committees, refer to [www.ccma-acmc.ca](http://www.ccma-acmc.ca).

In May of this year, the U.S. Securities Industry Association (SIA) announced that it would re-examine its June 2005 target implementation date for shortening the securities settlement cycle to T+1 from T+3. In July 2002, the SIA concluded that the industry would focus on STP in 2003 and 2004, rather than on moving to T+1 in 2005 and said that shortening the settlement period should be evaluated again in 2004.

Given the conclusions in the November 2000 Charles River economic analysis that there was no benefit for Canada in moving equities settlement to T+1 ahead of the U.S., and consistent with the CCMA's stated general strategy of maintaining the same settlement cycle as the U.S., the CCMA announced on July 19, 2002, that it would defer its announcement of a possible change in the settlement period until 2004 and focus on achieving STP in Canada.

While STP of entitlements is not critical to the STP of institutional and retail transactions, it supports industry-wide STP of trading and settlement as delays in receipt of entitlement payments can lead to failure of downstream transactions in a chain, requiring manual intervention, with little time to correct the problem. More importantly, there are major problems in entitlement processing that could and should be addressed by significantly improving the straight-through processing of entitlements to improve the efficiency of the Canadian marketplace. The analysis and recommendations here are relevant in the T+3 and T+1 settlement environments so that if the U.S. re-instates a T+1 date in or after 2004, Canadian industry participants will be ready and can maintain the competitiveness of Canada's capital markets.

**c. CAWG Deliverables and Scope**

The CAWG's mandate is:

- To identify corporate action activities that are directly impacted by the move to STP/T+1 settlement and develop approaches to resolve any associated problems that may occur in the transition
- To work with U.S. counterparts to ensure consistency of process and practice wherever possible
- To develop an implementation plan that will ensure that the processing of corporate actions works in a STP/T+1 environment to ensure the best possible service to investors while avoiding market dislocation and additional liability.

The ideal for STP is that the life cycle of an entitlement, from announcement/tendering through payment/final distribution and reconciliation, all occurs electronically.

The CAWG determined (and reconfirmed after the July change to an STP focus) that the scope of its work would encompass consideration of a broad range of entitlement-process improvements, which might be reflected in standards and best practices, amended or new legislation, regulation, rules or the like. The focus of improvements was, in turn, agreed to be entitlements related to a broad range of securities – debt, equity or other – of listed or unlisted companies and any other securities issuers that may be subject to prospectus, offering documents or other filing requirements, and including both public distributions (e.g. issuers of municipal government securities) and private placements. Specific major areas of focus include:

- Entitlements where inefficient processes in a T+3 environment would make processing in a shortened settlement cycle more complex and risky, including in relation to equity, debt and mutual/segregated fund products.
- Entitlements relating to products currently already settling on a shorter cycle, such as money market instruments that settle on trade date (T), to ensure consistency of processing across all products
- Entitlements related to securities out on loan under securities lending programs, which may present particular challenges
- Entitlements associated with global issues to reflect the growing market of international investors interested in Canadian securities issues and, equally, the growing number of Canadians investing outside Canada
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and to exclude:

- Aspects of entitlement processing that are already subject to STP and processed in an automated fashion
- Improvements in entitlement processing already underway through the Entitlements Task Force under the auspices of the Canadian Depository for Securities Limited (e.g. review of events currently not processed by CDS that will be accommodated on CDS's new clearing and settlement system, such as Dutch auctions and odd lot offers; confirmed initiatives related to processing efficiencies, such as the timing of new securities being reflected in CDS participants' ledgers for certificate exchanges, etc.)
- Automation of the exchange process between intermediary and investor – as noted above, the STP goal is the processing of entitlements related to securities from beginning to end of the processing chain without manual intervention, which is highly challenging given the multiple parties in the entitlement-handling process and the exchanges of information required between intermediaries and investors; while firms are encouraged to automate where possible the relationship with their clients, the complexity of events will make this difficult to achieve.

**Note:** The CAWG continues to examine these issues in a T+1 context as the T+1 goal could be reinstated when shortening the settlement cycle is reviewed next, likely in 2004.

A summary of recommendations is included as **Appendix A**.

## 2. BACKGROUND

### a. Definitions

Entitlement “events” involve the calculation and payment of cash and/or securities to a securities holder, e.g. a dividend, interest or maturity payment or a tender offer. They can be divided into:

- Mandatory – ones where the beneficial holders will receive the entitlement without having to make a decision as to whether they accept the event or not, for example:
  - dividends (including dividend reinvestments, stock dividends, stock cash dividends, dividend option)
  - interest
  - maturity repayments (including time deposits and discount notes)
- Voluntary – ones that beneficial holders may or may not decide to accept, e.g. when an offer is made to take over a company, the company’s beneficial owners may choose or refuse to tender their shares to the offer.

Although each organization may define its entitlement events differently, industry players may get bulletins on any of 60 different entitlement event types — 44 mandatory, five mandatory events with options and 11 voluntary — from the Toronto Stock Exchange (TSX) or The Canadian Depository for Securities Limited (CDS), important sources of securities information (**Appendix B**). There are also other service providers that provide information services. The number of event types will likely increase, given the pace of change in the securities industry. **Appendix C** sets out events currently reported on by CDS and TSX.

Entitlements include corporate actions, defined as anything that affects corporate share or debt structure or payments related to these, including but not limited to:

- Corporate reorganizations – a merger or acquisition, leveraged buy-out or tender offer
- Special stock transactions – a split, rights offering, conversion, odd lot program
- Changes in capital structure, whether through flotation, merger, takeover, consolidation or a capital reorganization.

While the significant impediments to the straight-through processing of entitlements relate to corporate actions, other entitlement payments can be problematic too; delays in receipt of income entitlements, such as the

late or non-receipt of interest or dividends that may be needed to pay for purchases of securities, bring risk and costs as downstream transactions in a chain may also fail.

Entitlement events thus range from the simple payment of interest to complicated company reorganizations with multiple options that make them difficult to manage operationally for financial intermediaries and difficult for investors to understand and select the right option. The focus of this paper is all aspects of corporate actions and, with respect to other entitlements, the payments aspect, which remains the main obstacle to STP.

**Appendix D** sets out some examples of recent complex transactions.

## **b. Overview of the Current Entitlement-Processing Environment**

### ***Process***

The processing of entitlements is one of the most complex and error-prone tasks in the Canadian securities industry due largely to the difficulty of obtaining timely and accurate information on event details and the lack of industry standards. A GSCS Annual Survey (1997-1999) has suggested that Canada's undisciplined entitlement management process contributes to its lower rating in world rankings, citing Canadian custody client criticisms regarding corporate actions handling as follows:

- “Corporate action offer notifications are always well after the companies have amended the tenders...”
- “Corporate action advices via SWIFT are not useful enough. They don't write the necessary details on it... SWIFT for settlement advices are quick and good. SWIFT for corporate actions are incomplete and have no useful details.”
- “Well developed, automated market environment coupled with systems sophistication enables [a major Canadian custodian] to offer a very efficient service. Highlighted shortfalls in service (dividend reinvestment plans and some corporate action event notifications) primarily relate to market issues not specific to [the major Canadian custodian]...”

In Canada, a nominee holding structure for securities is prevalent. Most beneficial holders of securities have at least two nominees between them and the issuer of the security – usually the beneficial holder's broker or custodian and CDS. Generally, intermediaries processing entitlements follow these steps:

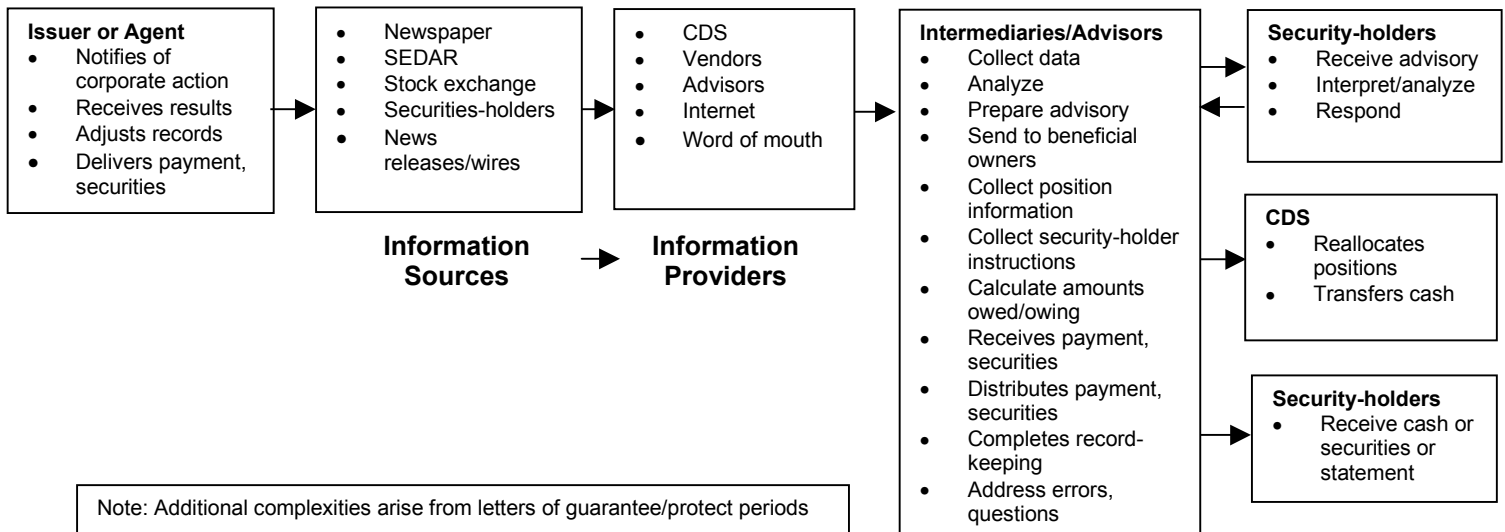
1. Collection of event details (e.g. rates, dates, etc.) – this is the most critical step in the whole process as many subsequent processing steps are missed or performed too late if the intermediary is unaware of upcoming entitlements in advance. Given the lack of a central source in Canada for entitlement event information or even sources that are comprehensive, complete, accurate or timely, each market participant looks to a range of sources to find and cross-check event information, e.g. to all of the following sources and more:
  - Mailings from an issuer or its agent (risk of loss or delay in the mail)
  - Announcements placed in newspapers and other publications, including small and specialized publications
  - Vendor data feeds
  - The System for Electronic Document Analysis and Retrieval (SEDAR) (of the 60 event types mentioned in Appendix C, SEDAR has data on 22 or 37 per cent, which represent a small proportion of the total volume of events processed annually)
  - Stock exchanges (stock exchanges in Canada require their listed companies to notify the exchange of any entitlement; however, this source does not capture all entitlements, e.g. debt-related events) (**Note:** Not all securities issuers (notably, non-listed issuers) are required to file information in SEDAR, TSX or CDNX)
  - The Internet
  - Word-of-mouth from reliable sources
2. Notification of events to security-holders
3. Collection of position information
4. Collection of security-holders' instructions (e.g. currency options, voluntary events)
5. Calculation of amounts owed and owing
6. Receipt of entitlement from the paying agent
7. Distribution of entitlement to security-holders.

At every step in the chain between issuer and beneficial holder, each party requires details – some the same, some different – about an entitlement event to complete processing, as summarized in the table below.

	<b>Broker/Custodian</b>	<b>CDS</b>	<b>Beneficial Holder</b>
<b>Rate(s), e.g. interest or dividend</b>	✓	✓	✓
<b>Date(s), e.g. payable date, date of record</b>	✓	✓	✓
<b>Holdings – Participant</b>	✓	✓	
<b>Holdings – Beneficial Holder</b>	✓		✓
<b>Tax Impacts</b>	✓	✓	✓

	Broker/Custodian	CDS	Beneficial Holder
Optional Features, e.g. cash or securities, currency	✓	✓	✓

There are a range of further steps involved in processing an entitlement. The diagram below outlines these steps at a high level:



**Note:** The above diagram does not capture the processing iterations that must take place when changes occur, requiring cancellations, corrections, etc.

Not receiving notice of a corporate action exposes firms and their investors to late payments, investment and market risks, loss of interest and lost opportunities.

### Statistics

Entitlements for most of the equity, debt and money market securities issued by Canadian issuers, as well as U.S. issuers' securities that are held by Canadian brokers and custodians, are processed between the different parties to the entitlement process through CDS. In 2001, CDS records show that:

- 93,000 entitlement events were processed, each routinely involving many times that number of individual transactions as each of these events must also be processed by a broker or custodian to deliver the entitlement to the individual ultimate beneficial holders' accounts; also, in

many cases, the beneficial holder may have to make a decision, choose from a list of options or give instructions on the processing of the event for his or her account; the processing of events is complicated further as the timing of the events is not distributed evenly throughout the year, but is concentrated at month-, quarter- and year-end.

- \$2.6 trillion in entitlements were processed (cash only), including:
  - Interest: \$57.9 billion
  - Dividends: \$14.5 billion
  - Corporate Actions: \$125.0 billion
  - Money Market Maturities: \$2.4 trillion

The table below is an aggregation of data from five major market players, showing the breakout between mandatory and voluntary events and providing an indication of the number of underlying clients these five alone deal with.

January 1 - December 31, 2001	Number of Events	Dollar Value	Number of Underlying Clients
<b>Mandatory Events:</b>	27,847	N/A	N/A
<b>Voluntary Events:</b>	12,015	N/A	N/A
<b>Income Entitlements:</b>	190,934	2,394,205,350,912	43,296,568
<b>Subtotal</b>	<b>230,796</b>	<b>2,410,182,994,132</b> (some man/vol events not broken out)	<b>N/A</b>
<b>Foreign (Non-North-American):</b>	N/A	N/A	N/A
<b>Total</b>	N/A	N/A	N/A

**Note:** Information in the table above includes some U.S. dollars at par; there is a wide variation between firms responding to the survey leading to the above analysis, with foreign transactions representing from 2% to 30% of the processed entitlements reported and the split between U.S./foreign ranging from 73-83%/27-17%.

Data in the this section are conservative as they exclude some information on entitlements made directly by some issuers or their agents to registered holders; as well, private placements and special warrants are hard to capture and are not fully reflected.

### c. Comparisons with the U.S.

The U.S. remains Canada's closest partner and competitor in the securities markets. The U.S. Securities Industry Association identified significant problems in a number of corporate action areas as impediments to STP and T+1. These include: dissemination of corporate action announcements, trading and settlement of trades on issues

undergoing a corporate action, payments due as a result of a corporate action, proxy voting and shareholder communications, physical certificates, global issues, foreign exchange issues, liability issues, legal issues and communications issues.

In some areas, the U.S. marketplace appears to have greater clarity than in Canada through the existence of rules, e.g. under stock exchange mandates. For example, a Letter of Protect (180) can be used by counterparties to establish liability, stating: "If you cannot make delivery of this item on or before [insert date], we shall hold you liable in accordance with the rules and procedures of National Securities Clearing Corporation Rules, Rule #753 of the American Stock Exchange or Rule #180 of the New York Stock Exchange for any damages that may accrue."

In other areas, the U.S. marketplace faces challenges where Canada has less of a problem: corporate action bulletins sent by CDS to market participants append original background documentation filed electronically in the System for Electronic Document Analysis and Retrieval (SEDAR); in the U.S., an equivalent to SEDAR exists, but similar attachments are understood to be sent by mail.

The SIA has recommended that agents be required to deliver all corporate action information to a central repository (e.g. the U.S. Depository Trust and Clearing Corporation – DTCC) by electronic communication as part of the SIA's STP initiative as a way to address some of the challenges faced in both markets. As well, the U.S. has recommended a liability messaging hub and other improvements. For a full discussion of SIA Corporate Action Subcommittee recommendations, visit [www.sia.com](http://www.sia.com), Key Issues, STP, Reports/Papers, White Papers/Models, October 2001, SIA T+1 Corporate Actions Subcommittee White Paper.

#### **d. Comparisons with Selected Other Markets**

Other markets face or have faced similar challenges with entitlements and corporate actions and many are struggling with ways to improve STP vis à vis entitlements. Most major markets process entitlements similarly to Canada, relying on paper-based or unformatted information that may not systematically have to be provided to a central point by the issuer (e.g. Japan, France). Others, however, are moving towards standardized electronic delivery to a central disseminating repository, usually an exchange or depository. Some emerging markets, without the old infrastructure of the more established markets, have been able to move ahead of the older markets in establishing efficient processes.

United Kingdom: All equity issuers (whether listed or not) are required to report their entitlement events to the London Stock

Exchange (LSE), which acts as a central source for this information. The U.K. depository CREST, according to information provided on the International Securities Services Association Web site, “provides structured electronic messages to drive customer automation relating to all corporate actions and facilitates elections on voluntary actions. Background information is supplied by the London Stock Exchange in a single consistent format... in paper or electronic form, although definitive information comes from issuers and is not unique or consistent in format. The CREST system handles most corporate actions, [with] the [major] exception [being] cash dividends (still paid through the banks outside CREST, for historical reasons and cost-effectiveness. Rights are still issued in paper form, but are expected to move to electronic form as soon as each relevant issuer agrees.”

Australia:

In the Australian market, domestic corporate action information is received through daily files from the ASX (Australian Stock Exchange). By law, issuing companies must send all corporate action and income information through the ASX and the notices must be worded in a standardized manner. The ASX monitors the information and penalizes companies that fail to comply with the notification procedures. The ASX compiles all the information into one file and sends that file to all the holders.

The ASX also produces a weekly summary report of all corporate action and income information. The information contains details of the event, ex-date, record date expiry date, ratios, fractions (which are generally rounded up), etc. Holdings are held with the share registry by account numbers or HINs – Holder Identification Numbers. As well, bulk positions can be held with CHESS (Clearing House Electronic Security System), essentially a sub-registrar. Elections can be made via CHESS or the registrar.

Hong Kong:

All entitlement event information is filed with the Hong Kong stock exchange and central depository.

Denmark:

All entitlement information is filed with and all entitlement payments are processed through the

Danish depository; Denmark also operates in a fully dematerialized environment.

- South Africa: South Africa has detailed market rules regarding corporate actions in STRATE's, the South African securities depository's, dematerialized environment. These clearly define roles and responsibilities; what must be contained in a final message about a corporate event; definition of key dates in the process; deadlines for the entitlement payment date, when cash must be received from the issuer or transfer agent and when shares are available for distribution; clarification that the Johannesburg Stock Exchange will help in the recovery of claims; etc.
- India: All corporate actions are reported to the National Securities Depository Limited (NSDL) and the delivery of all payments and securities entitlements is made through NSDL.
- Hungary Entitlements of firms that have become issuers since new rules were introduced last decade are required to file entitlement information with the depository, which makes it available to brokers, posts it on a Web site and includes it in a newsletter.

### 3. CHALLENGES/PROBLEMS WITH CURRENT SYSTEMS/PROCEDURES AND PRINCIPLES FOR CHANGE

Current entitlement-related challenges in moving to T+1 are similar, but not identical, to the processing challenges faced in the institutional and retail markets generally. They include, but are not limited to:

- **Manual processes and duplication of/unnecessary effort:** While entitlement processing is automated to a greater or lesser extent, most if not all parties in the entitlement-processing chain still follow some manual steps, due to the diversity and uncertain quality of entitlement information services, with a greater risk of error and greater costs. As well, there is considerable duplication in the steps followed as the parties to a transaction, from issuer to beneficial holder, often use different sources of specialist and general market data, each often with a proprietary data format, for the same information on a given entitlement event (see diagram in section 2.b).
- **Need for standards and standardized procedures – standard information sources, standard timing, standard format and standard action:** There are no universal standards in Canada for when, where and how entitlement events must be reported. While some entitlement events are easy to discover or predict – the maturity and interest events on most bond issues can be predicted from the bond's first issuance – others are less so (e.g. the timing of a call on a bond is uncertain, meaning call notices are often missed by intermediaries and investors). If a market intermediary misses or is late in discovering an event because information on the event was not found in one of the intermediary's sources, the intermediary is late distributing the entitlement to its participants, with consequential liability implications. As well, delays in entitlement/corporate action processing can have downstream effects, e.g. on the calculation of net asset values for mutual fund purposes and for Western participants who may have a smaller window within which to make decisions if notification of a corporate event is late.
- **Need to reduce reliance on paper:** With much still done manually, there is excessive reliance on paper with significant rekeying, which is prone to errors. Cheques continue to be used for payment, which brings credit risk as these are subject to chargeback after payment date. The requirement for paper certificates brings further inefficiencies.
- **Money movement issues:** Cheques continue to be used for payment and the timing of receipt of payment is uncertain, making the ability to use funds uncertain.

- **Legal/regulatory impediments:** The lack of and potentially conflicting legally enforceable standards are obstacles to greater straight-through processing of corporate actions.
- **Need for additional incentives/enforcement mechanisms to achieve adherence to standards and market practice:** There is a lack of incentives or penalties for late or incomplete information and, where penalties could apply, there is relatively little monitoring and, it is understood, even fewer penalties exacted (see **Appendix C**).
- **Need for effective communications:** With so many players in the entitlement handling process – thousands of issuers, hundreds of intermediaries, advisors and infrastructure providers, millions of securities owners, etc. – clear communication is challenging.

Whether or not proposed solutions address weaknesses in the current corporate-action processing cycle become the criteria against which proposed solutions are measured. These criteria, summarized below, form the principles for change:

1. **Does the proposed solution remove current manual processes** subject to error and duplication and exposing participants and investors to unnecessary costs?
2. **Does the proposed solution contribute to standardized business and market practice** that will promote and support greater straight-through processing?
3. **Does the proposed solution reduce reliance on paper** in favour of faster, safer, more accurate and reliable electronic means?
4. **Does the proposed solution facilitate faster and more certain payment** of entitlements given reliance on incoming payments to finance other transactions?
5. **Does the proposed solution address legislative/regulatory impediments**, e.g. eliminate unnecessary or ineffective legislation/regulations/rules or recommend new legislation/regulations/rules?
6. **Does the proposed solution provide a way to promote compliance**, whether through monitoring, disclosure or, ultimately, penalties or liability arrangements?
7. **Does the proposed solution include a plan for communicating changes or requirements** to the appropriate audiences?

**a. Dissemination of Corporate Action Announcements**

Poor quality or delayed entitlement event information has caused million-dollar errors in the Canadian securities industry and losses for intermediaries and/or their clients, with a single mistake potentially costing

several million dollars. In one recently concluded court case, a firm was awarded over \$2 million as it successfully argued that its custodian had not provided it with the information necessary to allow it to make an informed decision as to when to sell shares that then lost substantially all their value upon expiration of an offer to purchase. The risk of error can be explained by the fact that delivery of hundreds of millions of dollars in entitlement payments to Canadian investors sometimes depends on someone finding a small newspaper notice in an obscure publication.

As well, once corporate action information is received it must be interpreted and disseminated, received, understood and acted upon.

**Appendix D** provides examples of these complexities for intermediaries and beneficial owners.

When corporate actions pertain to securities that form part of investment funds, there are potentially further processing complications as incorrect information may be used in calculating the net asset values of the funds, later requiring further adjustments to thousands or hundreds of thousands of client accounts.

Finally, Western participants may face additional challenges due to differences in time zones and the need to meet Eastern deadlines, which reduce the window within which to respond to corporate actions where information has already been provided late or not at all or contains errors. The greater challenges caused by the absence of standards regarding deadlines and the need to “interpret” wordy, confusing news releases are compounded in the shortened timeframe often faced by the Western community. Other problems include delivery of physical certificates if needed to Eastern agents or securing physical certificates when deadlines for this fall outside the standard Western business day.

**b. Trading and Settlement of Trades on/Securities Lending Related to Issues Undergoing a Corporate Action**

There may be particular processing challenges regarding corporate actions associated with issues in the process of trading and settlement, especially in the case of failed trades. On a related matter, a corporate action event on a security on loan under a securities lending arrangement may also present challenges (for example, voting on securities that have been lent), currently dealt with by recalling the security.

**c. Payments/Securities Delivery Due as a Result of a Corporate Action**

There are a number of problems surrounding payments resulting from a corporate action:

- **Funds received not final/irrevocable:** Payments received to fund an entitlement by cheque can be returned after the entitlement is paid out as described below.

Historically, Canadian issuers have paid their entitlements by uncertified cheque and delivery of those cheques has been generally thought to discharge their obligations. However, those payments are subject to reversal if there are insufficient funds in the account on which the cheque is drawn (or in the unlikely event that the bank issuing the cheque fails). Usually the cheque-clearing process takes one business day, but on occasion can extend over a number of days.

In Canada, it was increasing concerns over payment risk that led to the development of the Large Value Transfer System (LVTS), which opened for operation in February 1999. On the securities side, once the Debt Clearing Service (DCS) operated by CDS expanded to include issuers other than the Government of Canada, including corporations, the rules were amended to require all entitlement payments to be made by final and irrevocable funds. However, as the DCS has continued to expand beyond Government of Canada securities and money market instruments, payments on many of the new securities have come from issuers and paying agents that are not participants in CDS (e.g. trust companies acting as paying agents). Those entities are not subject to DCS (or other CDS) rules and therefore have continued to make their entitlement payments by uncertified cheque.

However, arrangements to address the payment risk associated with cheques are insufficient to handle the peaks now arising, for example, when long weekends and quarter-year-ends coincide. A recent experience involved \$4.1 billion in payments due on Monday, April 1, 2002. After considerable effort, CDS was unable to convert more than \$2 billion. The problem was resolved only because the financial institution making approximately half of the aggregate payments was able (and willing) to convert its payments into LVTS funds – at a cost to CDS. It should also be noted that the conversion arrangement does not reduce the credit risk involved, since all cheques so converted are subject to chargeback to CDS if there are insufficient funds in the payor's account. If CDS's banker requires CDS to reimburse it because a cheque payment has failed to clear, CDS's recourse is, in turn, to debit the account of those participants who received entitlements. This can create unexpected risks to the system.

Further difficulties will arise when the DCS is extended, in the spring of 2003, to include equity securities as part of the more general System X/CDSX improvements to the DCS. This extension, which, among

other things, will enable the clearing and settlement of equities in a T+1 timeframe, adds a further universe of entitlement payments made by non-participants in the CDS system. To make matters worse, these entitlements include payments arising out of corporate reorganizations. Such payments can be not only very large (up to amounts such as the \$9 billion payment that arose from the Imasco/Canada Trust/TD Bank reorganization), but also unpredictable as to timing within a ten-day payment window. It will not be workable to accommodate such payments within the conversion arrangements described above for the DCS.

- **Delays in receipt of funds:** In the U.S., while the payment process has improved over the years, the SIA's Corporate Actions Subcommittee reported that the Depository Trust and Clearing Corporation still receives five per cent of payments after its 3:00 p.m. Eastern Time cutoff. Payments for entitlements, including dividends and bond interest payments, are routinely received by DTCC after the established deadline. Other payments are received with errors or problems that require research, e.g. frequently the funds are received in bulk Fed Fund wires without a breakdown by the paying agent or, if a breakdown is provided, it may not balance to the amount of the wire. In the first quarter of 2001, on average, DTCC received only 94.5 per cent of funds expected each month by the 3:00 p.m. cutoff. Although DTCC did receive 98 per cent of funds expected by the system cutoff on the payable date, other problems meant that DTCC was only able to allocate 98.5 per cent of funds received, equating to 96.5 per cent of funds expected. This translates to, on average, over \$3.5 billion per month not being paid on the payable date to custodians and, in some cases, beneficial owners in the first quarter of 2001. In the U.S., some custodians do not allocate funds to their clients unless they have received the funds themselves, and more are reportedly considering this possibility as a risk mitigation process. While the problem is considerably less in Canada, even adjusting for market size, late payment and the risk of late payment continue to be a problem.
- **Delay in delivery of new securities:** Share exchanges due to mergers, reverse splits and other mandatory corporate actions are sometimes not processed until three days after the effective date of the action to allow unsettled trades time to settle. Investors may want to sell securities that do not yet appear in their accounts, which can cause:
  - Trade errors because the investor does not know how many shares of the new security to trade

- The inaccurate valuation of investor portfolios, since the old security remains in the account for three business days after the effective date of the action (usually, the old security stops trading on the effective date of the action, leaving investors with the old security in their accounts priced at the last closing price prior to the effective date of the action, unless the custodians are able to link to the price of the new security).
- **Lack of standards:** The issuer is often the “effective” or “expiry” date driver and may sometimes not relay payment information to the paying agent in a timely manner, sometimes even after pay date. As well, there are complications when trades are taking place on or after the expiration date of voluntary events, when securities holders must make a decision before trading has ceased.
- **Solicitation fees:** A further payment-related issue is solicitation fees. Solicitation fees usually relate to purchase offers and rights issues. The offering/issuing company offers to pay the soliciting dealer group (composed of individual brokers) an amount per share for each tender/subscription that is received, e.g. \$0.05 per share deposited and taken up, with a minimum of \$85 and a maximum of \$1,500 per beneficial owner. This information is part of corporate action notification and the custodian expects the soliciting broker information with the tender instructions. If it is a physical tender, then the letter of transmittal is completed, with the broker’s name and address. If it is a CDS tender, instructions to tender shares are sent to CDS, but any information regarding solicitation fees is submitted directly to the transfer agent. This is where the process becomes inefficient. There are no clearly defined rules regarding the submission of solicitation fees to the transfer agents. Although the tender of shares must be completed by the legal expiry date, the corresponding submission of fees attached to those tendered shares has no cutoff date.

**d. Proxy Voting and Shareholder Communications**

In the past, there have been difficulties regarding the dissemination of voting information, establishing voting entitlements, compliance and lodging a vote. It is believed that any remaining challenges in these areas will largely have been addressed by the recent coming into force of National Policy 54-101.

**e. Physical Certificates**

Wherever securities are held in physical certificated form, there is increased operational risk and inefficiency in the Canadian marketplace

and increased cost, ultimately borne by investors. As well, investors can face delays due to the time needed to re-register certificates.

Certificated holdings require direct mailing of corporate action information, receipt of physical entitlements and manual processing, and each of these activities adds to risk and is inefficient, with no significant benefit accruing to the holder.

- Shareholder information is usually mailed to the registered holder, using a generic address: specific corporate action information is not always directed to the correct department, posing the risk of missing a voluntary action altogether. Items can be lost in the mail.
- Shareholder information, specifically with respect to private placements and special warrants, is usually directed to the beneficial holder and not the registered holder, consequently bypassing the custodian of the security: if the information is received late, the process of soliciting a response and executing the client instruction is compressed into a shorter timeframe, which is subject to increased risk. Again, information may not be received at all, causing the client to miss the election. From the custodians' and brokers' perspective, good service is compromised and there is a very real risk of liability.
- For voluntary actions, all forms/documentation must be completed manually: this is usually labour-intensive and open to the possibility of inaccurate completion and an incorrect election being made. If the transfer agent is out of town, receipt of the new entitlement could be delayed, resulting in the lost opportunity for the client to use his or her entitlement in a timely manner.
- For mandatory actions, the new entitlement is automatically received from the agent: specifically with private placements and special warrants, the new entitlement is usually directly sent to the beneficial holder (client) and not the registered holder (custodian). Receipt of the new entitlement is delayed and is not immediately "available," given that the client receives it first and then forwards it to the custodian for safekeeping. Often, the certificate is not received at all and there is an additional delay, given that the certificate must be re-issued. Again, the client is unable to use his or her entitlement in a timely manner. Again, custodial and broker service levels are compromised and the risk of liability is increased.
- For mandatory corporate actions, the processing agent may change, sometimes multiple times, after the effectiveness of the offer, making it difficult to submit certificates for the cash or new securities; also,

unlike routine transfers, which are completed in less than 48 hours (a transfer agent “best practice”), there is no standard surrounding the processing of physical certificates involved in a corporate action. This is to some extent understandable because, when a corporate action occurs, the transfer agent is faced with an avalanche of physical certificates that must first be validated and cancelled and then the agent must issue cheques or new certificates, often leaving investors and custodians waiting weeks (and sometimes longer) to receive the shares/proceeds from the submission of physical certificates to a corporate action. This delay in receipt of shares/proceeds keeps investors from reinvesting the proceeds from the action or selling the shares until they are received; investors risk missing investment opportunities until they receive the shares and/or proceeds from the corporate action.

As noted above, Western participants face particular problems when physical certificates must be delivered to Eastern agents or secured.

While CCMA Dematerialization Working Group members have reduction in physical certificates and removal of barriers to electronic alternatives as their mandate, the corporate action process is subject to risk as long as physical certificates exist. Even if an organization’s automation and controls are very sophisticated, if the initial communication is not received, any voluntary action/opportunity will be missed entirely. If the information is received late, the processing time is reduced, subsequently increasing the level of risk.

In the case of a mandatory action, although the action will still take place, the entitlement could be delayed. For example, if a notification is not received on a full redemption, the transfer agent will retain the proceeds until the certificate is presented. Consequently, until the mandatory redemption is identified, the client has lost any revenue that could have been earned on those funds.

It should be noted that there are currently some instances where certificates must be accepted (beyond the requirements associated with constrained or legended shares), for example:

- Issuers of certain foreign-owned securities relating to restricted Dividend Re-Investment Programs (DRIPs) may want these shares to be registered in the beneficial owner’s name – this may be addressed electronically through the DWG proposal for a Direct Registration System or DRS
- Events where there is a requirement by the issuer or offerer for a beneficial ownership declaration or specific tax elections at the

beneficial owner level at the time of election, etc. – industry participants prefer to retain beneficial owner information.

- Dutch auctions (around five to six a year), which have many options (range of \$10 to \$20 in increments of five cents) that would result in 200 temporary CUSIPs, or for daily expiries on an event such as odd lot offers [**Note:** These two events types will be resolved with CDS’s new debt and equities clearing and settlement system]
- Offerer’s demand for securities to be presented at a location where CDS does not have an office – this is rare and most participants have interbranch delivery service that is cheaper than having CDS arrange a delivery.

**f. Global Issues**

While the U.S. marketplace is not considered “global”, there are some differences between the Canadian and U.S. marketplace and market practice, notably dates of record.

	<b>Trade</b>		<b>Settlement</b>	
<b>Canada</b> *	Ex Date	Record Date	Payable Date	
<b>U.S.</b> *		Record Date	Payable Date	Ex Date

\* **Note:** The period between record and ex date is called a due-bill period, which is used by DTCC to bundle the trade and entitlement due; in Canada, the trade and entitlement are processed as two separate payments.

Such complexities are multiplied by the number of jurisdictions around the globe. This complexity is compounded by differences in time zones, laws, procedures, regulations, rules, languages, holidays when the local settlement infrastructure providers are closed, etc. As information often must come through a member of sub-custodians, this causes delays in the firm contacting its clients for instructions. As well, a firm’s response time is further reduced as it must return instructions to the next sub-custodian in the chain in time to process them onto the next party. These compressed turnarounds negatively impact investor service and increase risk for both clients and the firms processing the actions.

**g. Foreign Exchange Issues**

As above, while the challenges of currency related to entitlements are to some extent mitigated by the fact that there is no date set for the move to T+1, there may yet be a decision, industry- or regulator-driven, to shorten the settlement cycle, thus solutions to some of the challenges of foreign exchange issues should be sought. FX will present particular problems if the settlement cycle shortens, even just to T+2 in non-U.S. currencies.

Even today, certificates moving between depositories may result in payments being made in a currency contrary to holders' wishes.

**h. Liability Issues**

Liability issues relating to entitlements, including corporate actions and the lending of securities undergoing a corporate action, are covered in bilateral agreements between parties and under the law of contract. In section 2.c, a strength of the U.S. marketplace mentioned in relation to corporate actions as compared to Canada's capital markets is the existence of protect or 180 letters. At the same time, there is inconsistency between U.S. rules applying to liability, for example, between those of the New York Stock Exchange and American Exchange, the National Securities Clearing Corporation and National Association of Securities Dealers (NASD). From a purely operational perspective, liability notices are usually faxed, leading to the risk that the notice will not be received, leading to the recommendation in the U.S. of a central liability messaging hub.

**i. Legal Issues**

There are inconsistent regulatory and self-regulatory reporting requirements related to entitlements and a number of different bodies that have set these requirements. What requirements do exist are not always monitored for compliance and penalties appear to apply rarely.

**j. Communications Issues**

To undertake change in the entitlements area is a challenge because those involved – reflected in the diagram in Section 2.b – are numerous, diverse and dispersed and there is no easy way to reach all players other than through regulators. As well, there are some players that benefit, intentionally or otherwise, from the perpetuation of inefficiency. For example, delays in payment of entitlements to the final investor, when payment has been received by an intermediary, gives the intermediary the opportunity to earn a return on the funds for a short period. There are others, involved in only a small number of entitlements, who may see little value in change.

#### 4. ANALYSIS/OPTIONS/PROPOSED SOLUTIONS TO REACH STP/T+1

##### a. Dissemination of Corporate Action Announcements

**Recommendation #4.a.i – Mandate entitlement reporting to central hub:** Mandate issuers or their agents to report preliminary, final and amended current and ongoing entitlement information in electronic STP format on the announcement date within specified time parameters to a central repository paid for by users (pricing model to be determined by supplier(s)), assuming that a cost-benefit analysis (**Note:** to be conducted by potential hub service suppliers within a suggested four-month timeframe – tentatively targeted to take place February 1 – May 31, 2003 – from the CCMA publishing that the majority of comments on the white paper support proceeding with the hub recommendation) shows that such a hub can be cost-justified. The proposed central repository solution must meet the tests of transparency, ease of access, accuracy, comprehensiveness, timeliness, efficiency/usability, security and reliability. Once such a hub has been implemented and the results evaluated, other current filing and notification requirements, which should continue until that time, should be reviewed and rationalized after ensuring that access of securities holders directly or indirectly to entitlement information is not compromised. As well, explore a link with, as a minimum, the Depository Trust and Clearing Corporation (DTCC) corporate action hub, as well as others that may develop, e.g. CREST. **Note:** During the comment period, potential hub suppliers are encouraged to identify themselves to the community to promote discussions.

Taking steps to address current challenges in entitlement processing through considering such mandating should be pursued as part of the securities commissions' mandate to:

- Improve the equity of treatment among investors by promoting transparency through easier and broader access to information
- Enhance the overall efficiency and cost-effectiveness of the market
- Not impose a burdensome cost on filers.

As mentioned, a major issue in the processing of entitlement events is the difficulty in obtaining information about these events. To reduce the chance of missed information, errors and rekeying, the beneficial owner, intermediaries and issuers should use the same source for their information. To address this issue would require an entitlement information source that met a number of key criteria:

**Transparent/Publicly Available:** The entitlement event data should be easily accessible by the investing public as well as market intermediaries.

**Accurate:** The event information must be correct (the source of the most accurate non-customer-specific information is the issuer or its agent or, in the case of an offer, the organization making the offer) and the issuer/offeror/agent should remain responsible for accurate transmission of information to the recipient.

**Comprehensive:** The source of event information should cover or grow to include all Canadian security types – debt, equity, money market and mutual/seg fund securities.

**Timely:** Entitlement event data should be entered in the repository within a specified time after the event being decided on by the issuer/offeror, e.g. when a dividend is declared or an offer is made public, and then be made available immediately.

**Efficient:** The data should be in a clear format that allows downloading or easy use of data to avoid rekeying where possible; the data should be input by the issuers or their agent to, ideally, a single location and not impose a burdensome cost on filers.

**Secure/reliable:** Given the importance of the entitlement information, the repository should demonstrate, and have a reputation for, security, confidentiality and reliability.

We believe that it is in the interests of intermediaries, issuers and the investing public for the securities commissions to mandate reporting by issuers or their agents of entitlement event information directly to a central location and to use a site for this that meets the above criteria. Both current and ongoing elections available at the beneficial holder's option should have to be filed, e.g. warrants are typically issued with an expiry date more than a year in advance and the holder has the option to exercise at any time up to expiry with the actual final voluntary action not being officially announced until six to eight weeks prior to the final expiry; other examples include the exchange of "exchangeable shares" and restriction removals.

Possible existing sites for the centralized repository include the System for Electronic Document Analysis and Retrieval (SEDAR), which already includes a certain amount of entitlement information (refer **Appendix C**). Also, a considerable amount of information relative to equities is required to be filed with the Toronto Stock Exchange (refer **Appendix C**). However, unlisted company information will not be captured on either SEDAR or TSX and filing of information related to securities of these firms, if not mandated, should be accepted by the hub if volunteered.

There are precedents in Canada for the mandating requested. The securities commissions already mandate the timely reporting of material events, filing of prospectuses and notification of meeting events in specified locations, increasingly in a central location. For example, as noted above, 22 of 60 event types listed in **Appendix C** must already be filed in SEDAR. There are therefore strong precedents for extending the requirement to file centrally to all entitlement events.

**Note that while depositories and exchanges may be viewed by some as “natural” candidates to provide hub services as they do in other countries (see Section 2), CAWG discussions of specific hub requirements did not assume any potential builder or operator, nor a single hub, nor that a new system would have to be built at all if existing services could accommodate requirements.**

In this regard, CAWG members focussed on functionality of the hub and concluded that the goals of the corporate action hub should be to:

- Provide a single, automated point of access to corporate action information
- Standardize corporate action market practice and standards
- Use browser and file-transfer-protocol-based technology to provide easy, flexible access to all parties
- Offer a seamless integrated exchange of information between issuers/their agents and intermediaries for investors
- Reduce financial risk of missed announcements and incorrectly tendered elections due to manual processing and operational risk through electronic audit trail and message delivery that help manage risk
- Lower operational costs by eliminating faxing and rekeying of information through the use of announcement formats.

The table below lists hub features along the vertical axis and, on the horizontal axis, identifies minimum, desirable and ideal options for each feature in the list (standard securities industry best practices, e.g. requirement for a disaster recovery and business resumption plan, redundancy, security, checks and edits, audit trail, 24x7 operating availability (with provision for maintenance downtime), customized reporting capabilities, access to historical archives for a period of time consistent with legal record retention requirements, flexible architecture that allows the possibility of development, modification and addition of modules that will manage newly introduced processes, etc., are assumed and therefore not reflected here). The challenge for industry players will be to select the mix of parameters that maximizes value for an acceptable all-in cost. A staged or phased approach should also be considered, with

an initial design including the basic options but allowing for addition of desirable or ideal parameters as time progresses. Inhibitors to achieving the minimum, desirable or ideal state need to be assessed and ways to address them need to be identified.

Feature	Minimum/Basic	Desirable	Ideal	Beyond/Outside Scope
<b>Location of hub (may be existing source(s) enhanced)</b>	Limited number of credible service providers	Single portal to different providers	Single hub	
<b>Source of Information</b>	Issuer, offeror or either's agent	Issuer, offeror or either's agent	Issuer, offeror or either's agent	
<b>Type of Information</b>	Canadian securities and all Canadian exchange-listed securities, as well as dividend re-investment plans (DRIPs), class actions, etc.; both current corporate action information and ongoing elections at the beneficial holder's option	As in "Minimum/Basic" with a link to a U.S. hub planned at DTCC/EDGAR, the U.S. equivalent to SEDAR	As in "Desirable" with further links to hubs in other major capital markets	Other hubs developed globally
<b>Who is subject to central filing requirements</b>	Issuers and offerors subject to securities commissions or self-regulatory organization (TSX) regulation, all governmental bodies		All issuers and offerors, including issuers of private placements, etc.	
<b>Timing of data availability</b>	24 hours' notice or earlier where available	Immediate or as per deadlines to be discussed/established	Immediate or as per deadlines to be discussed/established	
<b>Dissemination</b>	Pull (intermediary accesses, investor access?)	Push, with ability to pull when desired	Push, with ability to pull when desired	Direct to investor
<b>Dissemination methodology</b>	Electronically, paper by exception	Electronically, paper by exception	Electronic	
<b>Format</b>	Within the standard regulator-required field-based summary page, the information should be in a formatted structure that conforms to industry ISO 15022 standards, allowing the recipient to supplement the	Within the standard regulator-required field-based summary page, the information should be in a formatted structure that conforms to industry ISO 15022 standards, allowing the recipient to supplement the	As under "Desirable"	

Feature	Minimum/Basic	Desirable	Ideal	Beyond/Outside Scope
	data with additional instructions (may also provide for a translation table)	data with additional instructions (may also provide for a translation table)		
<b>Quality of information/hub involvement</b>	As posted by issuer/agent/offeror	“Scrubbed”; information “second-sourced” (e.g. confirmed against a newswire release) with exceptions identified or solved); links between related events	“Scrubbed”; information “second-sourced” (e.g. confirmed against a newswire release) with exceptions identified or solved); links between related events	Investor responding to elections via hub; custodian responding via hub
<b>Reliability</b>	Confirmation of receipt; data reliability; reconciliation	Confirmation of receipt and audit trail; data reliability; reconciliation	Confirmation of receipt and audit trail; data reliability; reconciliation	
<b>Other</b>	<ul style="list-style-type: none"> <li>• Bilingual where underlying information is available in both English and French</li> <li>• Ability to receive information regarding corporate action events from other vendor systems</li> </ul>	<ul style="list-style-type: none"> <li>• Bilingual where underlying information is available in both English and French</li> <li>• Automatic updating of information about regularly scheduled mandatory corporate actions</li> <li>• Ability to receive information regarding corporate action events from other vendor systems</li> </ul>	<ul style="list-style-type: none"> <li>• Bilingual where underlying information is available in both English and French</li> <li>• Automatic updating of information about regularly scheduled mandatory corporate actions</li> <li>• Ability to receive information regarding corporate action events from other vendor systems</li> </ul>	<ul style="list-style-type: none"> <li>• Link with U.S. automated recall management system (ARMS) for securities loans</li> <li>• Liability messaging hub</li> </ul>

A number of risks will need to be evaluated by users and/or potential suppliers and these will vary depending on the combination of features chosen, for example:

- Responsibilities, rights and liability of the stakeholders in the process, from investors to intermediaries to service providers, advisors and others (these will need to be clarified to ensure equivalent access to information on a timely basis at a fair cost)
- Liability
- Cost/benefit of the hub to users, who pay, and service providers, who receive/store/disseminate the information
- Intellectual property
- Security and privacy.

**Recommendation #4.a.ii – Set standards for reporting to entitlement**

**hub:** Develop through further discussion standardized content/template/messaging formats and rules concerning when details of a corporate action should be published/filed with the hub or other approved site (System for Electronic Document Analysis and Retrieval (SEDAR), Toronto Stock Exchange), along with minimum quality standards governing content, for example:

- Prospectus summaries should include specified information in specified fields and be written as much as possible in plain language
- Corporate action details must be filed concurrently with a news release
- News releases must include key information such as timing, etc.
- Filings must be made “x” business days prior to the respective action’s record date, expiry date or effective date with details such as, but not exclusively:
  - Name, share code and CUSIP, ISIN or standard of any other security affected by or resulting from the event
  - The options and respective quantities/ratios involved
  - The tax implications associated with each option/investor election for residents and non-residents
  - The terms and conditions of guaranteed delivery letters
  - If applicable, the deadline for releasing/advising of the pro-ration factor
  - The date/time when the cash/position entitlement associated with each option will be distributed
  - The type of event
  - The basis of calculation(s)
  - The default election
  - Last date to trade
  - Ex date and record date
  - The election deadline date
  - Payment date, currency and location

- The first date to trade in the entitlement (this will be a mandatory field in all cases where the entitlement is a share that does not exist in this form when the related announcement is made)
- Solicitation fees and/or other fees/costs that may be associated with the corporate action.

Turnaround times must be established (in discussion with Western participants) for all corporate actions, current as well as those that can be processed at any time at the option of the holder (e.g. lifted U.S. 1933 restriction, early exercise of warrants officially expiring the following year).

While it will require some effort to create the data format, the benefit to the industry as a whole, and, through the industry's ability to provide faster, more reliable service to investors, is a significant benefit that should be pursued.

**Recommendation #4.a.iii – Establish compliance measures for non-or late reporting to entitlement hub:** To ensure that issuers and others report their events to the proposed entitlements database in a timely, comprehensive and accurate manner, identify progressive options to promote compliance from disclosure through, for repeated non-compliance, penalties that are the same as for non-reporting of material changes under the continuous disclosure provisions of provincial securities legislation. This would include the imposition of fines on the person making the filing or cease-trade orders in respect of securities of the defaulting issuer. Where the filings contain misrepresentations causing loss to security holders or financial intermediaries relying on the filed information, civil liability should also be imposed upon the person making the filing.

**Recommendation #4.a.iv – Further analyze investment fund impacts:** Investigate in greater depth the challenges facing the investment fund industry due to the impact of corporate actions on the calculation of net asset values and opportunities to address these challenges.

**Recommendation #4.a.v – Further analyze time zone impacts:** Examine further the implications of time zone challenges that may be faced by Western participants and identify opportunities to address them.

**b. Trading and Settlement of Trades on/Securities Lending Related to Issues Undergoing a Corporate Action**

**Recommendation #4.b.i – Further analyze corporate actions of securities in the process of trading and settlement/under securities lending arrangements:** Investigate existence of any concerns regarding issues undergoing a corporate action during trading and settlement and in

securities lending situations and identify recommendations for improvement.

**c. Payments/Securities Delivery Due as a Result of a Corporate Action**

As set out in the CCMA's July 17, 2002, submission to the Canadian Securities Administrators:

- The current situation, in which entitlements can be paid using funds that cannot be considered final until the next day at the earliest, creates unacceptable risks in the securities settlement system.
- Those risks will increase significantly as the real-time processing required for STP and T+1 is implemented at The Canadian Depository for Securities Limited (CDS). Specifically, implementation of System X/CDSX at CDS could be jeopardized if the greatly increased volume of entitlement payments for the equity securities involved are not going to be made by LVTS funds.
- The commissions have mandates that include maintenance of efficient capital markets and LVTS, as a well-designed system that meets or exceeds international standards for payment systems, is a key component to market efficiency.
- The various securities commissions, acting through the CSA, have a mandate under the provincial and territorial securities acts to require efficient payments. These acts and the related regulations clearly govern the obligations of issuers, wherever located, wishing to raise money in the relevant jurisdiction. Those obligations include mandating the filing of prospectus and material change statements, as well as other numerous and significant administrative requirements.
- Extensive industry discussions over the last several years have failed to solve this problem and a regulatory solution is, at this point, the appropriate approach.

**Recommendation #4.c.i – Mandate entitlement payment by LVTS to recognized depositories:** Mandate the payment of corporate entitlements to recognized depositories using LVTS by a legally enforceable standard payment time to ensure that:

- All payments within the securities clearing and settlement system remain final and irrevocable
- The costs involved in these irrevocable entitlement payments are borne by those responsible for the payments
- Beneficiaries receive entitlement payments that are immediately

- available to them
- Canada is able to ensure the finality of payment required should Canada move to a T+1 environment.

**Recommendation #4.c.ii – Standardize payment process, compliance measures, compensation parameters:** Set payment process standards and best practices, including a best practice for the delivery of payment-related information, including form of payment and amounts and a reporting breakdown, with an industry-accepted identification number (e.g. CUSIP, ISIN, etc.) and the amount of money associated with each payment.

**Recommendation #4.c.iii – Publicize Canadian Depository for Securities (CDS) cutoff times:** Ensure that the CDS standardizes and publicizes the depository's established payment cutoff time(s) on payable date.

**Recommendation #4.c.iv – Further analyze share exchange process:** Review process where shareholders receive new securities in exchange for their old securities (mergers, name changes, reverse splits) to see what standardization and streamlining is possible.

**Recommendation #4.c.v – Update and communicate solicitation fees standard:** Review and update CIBC Mellon and Computershare proposal dated October 3, 2001, for implementation as a standard, with a date that everyone is aware of and abides by.

**d. Proxy Voting and Shareholder Communications**

No process changes are required but there should be a concerted effort to promote electronic options. As well, potential suppliers of the central hub may wish to examine whether the central hub could be a conduit for such information.

**Recommendation #4.d.i – Promote electronic voting and shareholder options:** With the CCMA's Communication and Education Working Group, IICC and the Security Transfer Association of Canada (STAC), develop a communications program to issuers promoting that all issuers at least offer their investors the option of electronic submission of proxy votes and voluntary corporate action instructions. Included in this option would be reporting to investors.

**e. Physical Certificates**

Requirements for physical certificates should be eliminated, if the Canadian market is to be considered efficient and more risk-free.

The CAWG supports efforts by the CCMA's Dematerialization and Legal/Regulatory Working Groups to reduce physical certificates, particularly addressing constrained and restricted securities. The centralized corporate action depository, discussed above, is even more critical as long as physical certificates exist. The industry will depend on this communications hub to report notifications on all securities, including, ideally, private placements, special warrants and any other physical securities. By mandating reporting, the risk of not receiving accurate and timely entitlement information will be significantly reduced.

**Recommendation #4.e.i – Set physical certificate turnaround standards:** Establish standards/best practices to set timeframes for the turnaround of physical certificates submitted to transfer agents for corporate action events, akin to the 48-hour rule for routine transfers currently in effect. Include specific language in industry standards and best practices that address turnaround times for physical securities from transfer agents, e.g. a three-business-day turnaround for securities pertaining to a merger.

**f. Global Issues**

**Recommendation #4.f.i – Co-ordinate standards/practices/rules with U.S., U.K., others:** Discuss implications of requiring/how to require electronic dissemination of corporate action material and announcements for domestic and foreign securities to achieve efficiency and reduce risk. Work with the LRWG and U.S. counterparts on the SIA Corporate Actions Subcommittee (and, to the extent possible, with Euroclear, Chess, CREST and SWIFT) to encourage Canadian, U.S. and other regulators to undertake necessary standards/best practices/rule changes to allow electronic distribution of proxy and corporate action materials and to remove any impediments to allowing the submission of proxy votes or voluntary corporate action instructions via electronic means as the growth of the Internet allows new opportunities for transparency.

**g. Foreign Exchange Issues**

**Recommendation #4.g – Further analyze foreign exchange issues:** Promote discussion between issuers, depositories and participants to allow for greater flexibility in receipt of the entitlements in the currency of the security-holder's choice.

**h. Liability Issues**

**Recommendation #4.h.i – Set liability standards/practices and compliance measures:** While bilateral agreements will generally

continue to establish liability, establish industry standards and practices to specify a common reference point and interpretive context for those agreements. Set timelines for when liability notices should be delivered/received by brokers with an enforcement mechanism provided. Make liability standards more consistent across all self-regulatory organizations (SROs) and industry utilities within Canada and, ideally, within North America, through engaging in discussions with the SIA Corporate Actions Subcommittee and equivalents.

**i. Legal Issues**

The scope of this white paper encompasses the broadest possible range of securities and industry participants. The CAWG is very much interested in feedback on not only operational impacts across the spectrum, but also legal implications.

**Recommendation #4.i.i – Further analyze legal issues:** Solicit input on potential legal impacts of the proposals and work with the Legal/Regulatory Working Group to further identify legal, regulatory and rule changes required to promote the straight-through processing of entitlements.

**j. Communications Issues**

Moving to meaningfully improve the entitlement-processing environment will require ongoing and effective communications to those involved in the corporate action handling process, e.g. including a link from [www.sedar.com](http://www.sedar.com), [www.cds.ca](http://www.cds.ca), [www.tse.com](http://www.tse.com), Edgar (U.S.'s equivalent to SEDAR), Canadian Institute of Chartered Accountants (CICA), Canadian Bar Association (CBA), Association of Municipalities of Ontario and others; working with regulators on articles for their newsletters; addressing the legal community that advises issuers; etc.

Communications will have to be broad and repeated as the efforts needed to address corporate action challenges will, in many cases, target behavioural changes and as the efforts will have to target all parts of the corporate-action-processing chain from issuer, to agent, to transfer agent, to intermediaries, etc.

**Recommendation #4.j.i – Communicate with issuers, agents, other stakeholders:** Work with the CCMA's Communications and Education Working Group to develop a modular communications package to target communications for different audiences (issuers, their agents, other stakeholders).

## 5. GOING FORWARD

### a. Proposed Implementation Schedule

At a high level, the schedule is:

- Issue white paper/addendum setting out problems and solutions for entitlement processing, including establishment of a mandated central entitlement reporting hub (November 2002/February 2003)
- Design a common set of standards and processes that achieves stakeholder agreement and facilitates corporate action STP processing, identifying regulatory changes (May 2003) and standards and best practices (August 2003)
- Monitor the evolution of the potential corporate hub proposal (2003 and 2004).

For a detailed CAWG implementation schedule to date, refer to **Appendix E**.

### b. Request for Comments

To move ahead, the CAWG and CCMA need feedback from you and the broadest possible range of other stakeholders in the securities industry that are impacted by the current treatment of entitlements. Specifically, we:

- Seek comments on the perceived benefits and challenges of, and proposed solutions for, a move to STP/T+1 from the perspective of entitlements and, in particular, corporate actions.
- Solicit comments and feedback to support the development of industry standards and processes that will allow for a smooth transition from the current T+3 environment to STP/T+1.
- Require specific input on the following subjects:
  1. **Challenges:** Have we accurately captured all the key problems in the current environment?
  2. **Processes:** Is the flowchart of current processes accurate and are the flows and timing proposed to achieve STP and T+1 achievable and practical?
  3. **Liability:** Have we accurately reflected the liability within the current system and proposed an effective method to clarify these relationships?

4. **Recommendations:** Do you agree with the specific recommendations for change as being the most cost-efficient and effective or are there any that you would amend and, if so, how?
5. **Action plan:** Is there anything that is missing or should be changed in the proposed work schedule?

**Please send your written comments on the above via e-mail, fax or mail by December 31, 2002, to:**

Ms. Anita Mehta  
Chair, Corporate Actions Working Group  
c/o: Ms. Rosa Sosin  
Canadian Capital Markets Association  
10<sup>th</sup> Floor, 85 Richmond Street West  
Toronto, Ontario, Canada M5H 2C9  
E-mail: [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca)  
Fax: 1 (416) 365-8700  
Tel: 1 (416) 815-2046.

**c. Expected Next Steps**

Comments received from interested stakeholders will be shared with the CAWG so that the proposed procedures, legislative/regulatory changes, communications required and implementation steps can be finalized. An unattributed summary of comments received will be publicized via the CCMA Web site so that respondents can be assured that their input has been heard.

The comments will be analyzed and the proposed model refined, with any significant points of disagreement to be discussed by the Canadian Capital Markets Association Board of Directors and/or the relevant industry association(s).

A final plan, as well as dissemination and implementation steps, will be publicized in 2003. In the interim, the CCMA will begin work to address the challenges identified in this paper. Individuals interested in participating in this initiative are invited to contact the CCMA at the coordinates above.

## SUMMARY OF PRINCIPLES FOR CHANGE AND RECOMMENDATIONS

### Principles for Change

Whether or not proposed solutions address weaknesses in the current corporate-action-processing cycle become the criteria against which proposed solutions are measured. These criteria, summarized below, form the principles for change:

1. **Does the proposed solution remove current manual processes** subject to error and duplication and exposing participants and investors to unnecessary costs?
2. **Does the proposed solution contribute to standardized business and market practice** that will promote and support greater straight-through processing?
3. **Does the proposed solution reduce reliance on paper** in favour of faster, safer, more accurate and reliable electronic means?
4. **Does the proposed solution facilitate faster and more certain payment** of entitlements given reliance on incoming payments to finance other transactions?
5. **Does the proposed solution address legislative/regulatory impediments**, e.g. eliminate unnecessary or ineffective legislation/regulations/rules or recommend new legislation/regulations/rules?
6. **Does the proposed solution provide a way to promote compliance**, whether through monitoring, disclosure or, ultimately, penalties or liability arrangements?
7. **Does the proposed solution include a plan for communicating changes or requirements** to the appropriate audiences?

### Recommendations

#### a. Dissemination of Corporate Action Announcements

##### **Recommendation #4.a.i – Mandate entitlement reporting to central hub:**

Mandate issuers or their agents to report preliminary, final and amended current and ongoing entitlement information in electronic STP format on the announcement date within specified time parameters to a central repository paid for by users (pricing model to be determined by supplier(s)), assuming that a cost-benefit analysis (**Note:** to be conducted by potential hub service suppliers within a suggested four-month timeframe – tentatively targeted to take place February 1 – May 31, 2003 – from the CCMA publishing that the majority of comments on the white paper support proceeding with the hub recommendation) shows that such a hub can be cost-justified. The proposed central repository solution must meet the tests of transparency, ease of access, accuracy, comprehensiveness, timeliness, efficiency/usability, security and reliability. Once such a hub has been implemented and the results evaluated, other current filing

and notification requirements, which should continue until that time, should be reviewed and rationalized after ensuring that access of securities holders directly or indirectly to entitlement information is not compromised. As well, explore a link with, as a minimum, the Depository Trust and Clearing Corporation (DTCC) corporate action hub, as well as others that may develop, e.g. CREST. **Note:** During the comment period, potential hub suppliers are encouraged to identify themselves to the community to promote discussions.

**Recommendation #4.a.ii – Set standards for reporting to entitlement hub:**

Develop through further discussion standardized content/template/messaging formats and rules concerning when details of a corporate action should be published/filed with the hub or other approved site (System for Electronic Data Analysis and Retrieval (SEDAR), Toronto Stock Exchange), along with minimum quality standards governing content, for example:

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**Recommendation #4.g – Further analyze foreign exchange issues:** Promote discussion between issuers, depositories and participants to allow for greater flexibility in receipt of entitlements in the currency of the security-holder's choice.

#### **h. Liability Issues**

**Recommendation #4.h.i – Set liability standards/practices and compliance measures:** While bilateral agreements will generally continue to establish liability, establish industry standards and practices to specify a common reference point and interpretive context for those agreements. Set timelines for when liability notices should be delivered/received by brokers with an enforcement mechanism provided. Make liability standards more consistent across all self-regulatory organizations (SROs) and industry utilities within Canada and, ideally, within North America, through engaging in discussions with the SIA Corporate Actions Subcommittee and equivalents.

#### **i. Legal Issues**

**Recommendation #4.i.i – Further analyze legal issues:** Solicit input on potential legal impacts of the proposals and work with the Legal/Regulatory Working Group to further identify legal, regulatory and rule changes required to promote the straight-through processing of entitlements.

**j. Communications Issues**

**Recommendation #4.j.i – Communicate with issuers, agents, other stakeholders:** Work with the CCMA’s Communications and Education Working Group to develop a modular communications package to target communications for different audiences (issuers, their agents, other stakeholders).

## CORPORATE ACTIONS WORKING GROUP MEMBERS AND OBSERVERS

Company	Name
State Street Trust Company Canada	Anita Mehta (Chair)
AIC Group of Funds	John Krajinovic
Bank of Montreal Nesbitt Burns (BMO)	Rose Parent Debbie Stephens
Canaccord Capital Corp.	Penny Hurd
Canadian Depository for Securities Limited (CDS), The	Barbara Amsden Ansley Currie Al Nanji
CIBC Mellon Trust Company CIBC World Markets Inc. CIBC Mellon Global Securities Services	Joe Dutra Mark Lennon Tony Presutti
Computershare Trust Company of Canada	Paul Colton Claudio Zompanti
Consultant	Sue Granger
Edward Jones	Al Knight
Equity Transfer Services Inc.	Richard Barnowski
FundSERV Inc.	Theresa Redmond
Lexus Consulting Inc.	Stan Monsowitz
Ontario Securities Commission	Charlie MacCready
Monetary Dynamics	Alan Flancman
Scotiabank	Sonia Anderson Minh Le
TD Bank Financial Group	Caroline Copto Angelo Moncada
TSX Markets DatalinX Toronto Stock Exchange Markets	Dominic Dowd Petersons
RBC Dominion Securities Inc. Royal Bank of Canada RBC Investments	Meeling Boos Adrian Rozario Ryan Varty
TD Bank Financial Group TD Newcrest	Marla Sing Paul White
Wells Fargo	Myron C. Berdahl

TABLE A. TYPES OF ENTITLEMENT EVENTS

VOLUNTARY ENTITLEMENTS	MANDATORY ENTITLEMENTS WITHOUT OPTIONS
Debenture buyback Odd lot offer (odd lot buyback) Purchase offer (Dutch auction) Subscription – rights Subscription – warrants Tender offer (cash and/or stock) Voluntary conversion Voluntary exchange Voluntary extension Voluntary redemption Voluntary retraction	<p><b>Maturity Payment</b></p> Maturity (including short, medium, long-term, discount note) Asset-backed security final maturity National Housing Act (NHA) final maturity Strip bond maturity Strip bond package maturity
MANDATORY ENTITLEMENTS WITH OPTION	<p><b>Interest Payment</b></p> Interest payment Money market interest Asset-backed security pay date (no write-down) Asset-backed security pay date (with write-down) Asset-backed security record date (no write-down) Asset-backed security record date (with write-down) NHA mortgage-backed security (MBS) monthly Strip bond package interest payment
Interest with option Mandatory acquisition with option Mandatory change with option Merger with option Plan of arrangement with option	<p><b>Dividend Payment</b></p> Cash dividend Dividend option (cash/stock, currency, dividend re-investment plan (DRIP)) Stock dividend (Canadian-listed) Stock dividend (inter-listed) Stock dividend (U.S.-listed)
	<p><b>Other Distribution</b></p> Cash distribution Rights/warrants distribution (bonus rights, special warrants) Stock distribution (Canadian) Stock distribution (inter-listed) Stock distribution (U.S.-listed)
	<p><b>Reorganizations</b></p> Consolidation/reverse stock split Liquidation/dissolution Mandatory acquisition without option Mandatory change (CUSIP/ISIN change, name change, reclassification, capital reorganization) Mandatory conversion Mandatory exchange Mandatory extension Merger - no option (mandatory merger) Partial call - lottery (partial call bond) Partial call - pro rata (partial call bond) Plan of arrangement - no option Push out Redemption - full (full call bond) Spin-off (Canadian-listed) Spin-off (inter-listed) Spin-off (U.S.-listed) Stock split (Canadian-listed) - subdivision Stock split (Canadian/U.S. inter-listed) - subdivision Stock split (U.S.-listed) - subdivision Subscription - installment receipt Unit separation (split)

#	EVENT NAME	DESCRIPTION/FREQUENCY CHARACTERISTICS	DOCUMENT TYPE	UNDER WHAT RULE? SPECIFIC OR "MATERIAL"?	FORMAT OF RECEIPT	TIME-LINESS SPECIFIED? FORM SPECIFIED?	FILED WITH SEDAR (Y/N)	STORED AS FREE TEXT? (FT) FIELDS? (F)	MONITORED FOR WHEN FILED?	LATE/INCOMPLETE FILINGS DISCLOSED?	FILING RULES ENFORCED? PENALTIES APPLIED?
<b>VOLUNTARY ENTITLEMENTS</b>											
1	DEBENTURE BUYBACK	NOT SET; DETERMINED BY TRUST INDENTURE	OFFERING CIRCULAR/PRESS RELEASE/TRUST INDENTURE/NOTICE OF REDEMPTION	TSX COMPANY MANUAL REFERENCE S 699.8-699.9	PAPER FAX EMAIL	N/A	Y	FT	YES	N/A	N/A
2	ODD LOT OFFER (ODD LOT BUYBACK)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	OFFERING CIRCULAR/PRESS RELEASE/LETTER OF TRANSMITTAL	TSX COMPANY MANUAL REFERENCE S 699.1	PAPER FAX EMAIL	N/A	Y	FT	N/A	N/A	N/A
3	PURCHASE OFFER (DUTCH AUCTION)										
4	SUBSCRIPTION - RIGHTS	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL/TRANSFER AGENT NOTICE/RIGHTS OFFERING CIRCULAR				Y	FT			
5	SUBSCRIPTION - WARRANTS	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	PRESS RELEASE/SECURITY CERTIFICATE				Y	FT			
6	TENDER OFFER (CASH AND OR STOCK)	DETERMINED BY COMPANY	OFFERING CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL				Y	FT			
7	VOLUNTARY CONVERSION	DETERMINED BY PROSPECTUS/TRUST INDENTURE	TRANSFER AGENT NOTICE/CONVERSION FORM/SECURITY FEATURE				N	-			
8	VOLUNTARY EXCHANGE	DETERMINED BY PROSPECTUS/TRUST INDENTURE	TRANSFER AGENT NOTICE/EXCHANGE FORM/SECURITY FEATURE				N	-			
9	VOLUNTARY EXTENSION	DETERMINED BY PROSPECTUS/TRUST INDENTURE	TRANSFER AGENT NOTICE/EXTENSION FORM/SECURITY FEATURE				N	-			
10	VOLUNTARY REDEMPTION	DETERMINED BY SECURITY FEATURE	NOTICE FROM ISSUER/TRANSFER AGENT				N	-			
11	VOLUNTARY RETRACTION	NOT SET; DETERMINED BY PROSPECTUS/TRUST INDENTURE	TRANSFER AGENT NOTICE/RETRACTION FORM/SECURITY FEATURE	TSX COMPANY MANUAL REFERENCE S 699.8-699.9	PAPER FAX EMAIL	N/A	N	-	N/A	N/A	N/A
<b>MANDATORY ENTITLEMENTS WITH OPTION</b>											
12	INTEREST WITH OPTION										
13	MANDATORY ACQUISITION WITH OPTION	DETERMINED BY THE COMPULSORY ACQUISITION ACT	PRESS RELEASE/NOTICE OF COMPULSORY ACQUISITION/ELECTION FORM				Y	FT			
14	MANDATORY CHANGE WITH OPTION	DETERMINED BY ISSUER	LETTER OF TRANSMITTAL/PRESS RELEASE/INFO CIRCULAR				Y	FT			
15	MERGER WITH OPTIONS	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL				Y	FT			
16	PLAN OF ARRANGEMENT WITH OPTION	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL				Y	FT			

#	EVENT NAME	DESCRIPTION/FREQUENCY CHARACTERISTICS	DOCUMENT TYPE	UNDER WHAT RULE? SPECIFIC OR "MATERIAL" ?	FORMAT OF RECEIPT	TIME-LINESS SPECIFIED? FORM SPECIFIED?	FILED WITH SEDAR (Y/N)	STORED AS FREE TEXT? (FT)	MONITORED FOR WHEN FILED?	LATE/INCOMPLETE FILINGS DISCLOSED?	FILING RULES ENFORCED? PENALTIES APPLIED?
<b>MANDATORY ENTITLEMENTS WITHOUT OPTIONS - MATURITY PAYMENT</b>											
17	MATURITY	NOT SET DEFINED BY SECURITY FEATURE	TRUST/WARRANT INDENTURE	TSX COMPANY MANUAL REFERENCE N/A	N/A	N/A	N	-	N/A	N/A	N/A
18	ASSET-BACK SECURITY FINAL MATURITY										
19	NATIONAL HOUSING ACT (NHA) - FINAL MATURITY	MATURITY DATE	TRUST INDENTURE				N	-			
20	STRIP BOND MATURITY	MATURITY DATE	SECURITY FEATURE				N	-			
21	STRIP BOND PACKAGE MATURITY	AS PER PAYMENT OF UNDERLYING SECURITY	PARTICIPANT REQUEST				N	-			
<b>MANDATORY ENTITLEMENTS WITHOUT OPTIONS - INTEREST PAYMENT</b>											
22	INTEREST PAYMENT	DEFINED IN THE TRUST INDENTURE/REGULAR MONTHLY/QUARTERLY	TRUST INDENTURE	TSX COMPANY MANUAL REFERENCE SS 435.3	PAPER FAX EMAIL	IMMEDIATE	N	-	YES	?	NO PENALTY
23	MONEY MARKET INTEREST		N/A	TSX COMPANY MANUAL REFERENCE SS 435.3	PAPER FAX EMAIL	IMMEDIATE	N		YES	?	NO PENALTY
24	ASSET-BACKED SECURITY PAY DATE NO WRITE-DOWN										
25	ASSET-BACKED SECURITY PAY DATE WITH WRITE-DOWN										
26	ASSET-BACKED SECURITY RECORD DATE NO WRITE-DOWN										
27	ASSET-BACKED SECURITY RECORD DATE WITH WRITE-DOWN										
28	NHA MORTGAGE-BACKED SECURITY (MBS) MONTHLY	MONTHLY	TRUST INDENTURE				N	-			
29	STRIP BOND PACKAGE INTEREST PAYMENT	AS PER PAYMENT OF UNDERLYING SECURITY	PARTICIPANT REQUEST				N	-			
<b>MANDATORY ENTITLEMENTS WITHOUT OPTIONS - DIVIDEND PAYMENT</b>											
30	CASH DIVIDEND	NOT SET; ANNUAL/ SEMI-QUARTERLY/MONTHLY. PAYS QUARTERLY MOST TIMES. DECLARED THREE WEEKS PRIOR TO PAYABLE DATE	TSX FORM 5/TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO	TSX COMPANY MANUAL REFERENCE SS 428-235	PAPER FAX EMAIL	IMMEDIATE 7 DAYS PRIOR TO RECORD	N	-	YES	YES	DIVIDEND PAYMENT REQUIRED TO BOTH BUYERS AND SELLERS IF THERE'S A DISPUTE; NEW RECORD DATE IF LATE AND IT CAN BE CHANGED
31	DIVIDEND OPTION (CASH/STOCK, CURRENCY, DRIP)	NOT SET; ANNUAL/ SEMI-QUARTERLY/MONTHLY	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/FOIA FORM 5	TSX COMPANY MANUAL REFERENCE SS 428-435	PAPER FAX EMAIL PHONE	IMMEDIATE 7 DAYS PRIOR TO RECORD	N	-	YES	YES	DIVIDEND PAYMENT REQUIRED TO BOTH BUYERS AND SELLERS IF THERE'S A DISPUTE; NEW RECORD DATE IF LATE AND IT CAN BE CHANGED
32	STOCK DIVIDEND (CANADIAN-LISTED)	NOT SET; ANNUAL/ SEMI-QUARTERLY/MONTHLY	TRANSFER AGENT NOTICE/TSX BULLETIN								
33	STOCK DIVIDEND (INTERLISTED)	NOT SET; ANNUAL/ SEMI-QUARTERLY/MONTHLY	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/FOIA FORM 5								
34	STOCK DIVIDEND (U.S.-LISTED)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE				Y	FT			

#	EVENT NAME	DESCRIPTION/FREQUENCY CHARACTERISTICS	DOCUMENT TYPE	UNDER WHAT RULE? SPECIFIC OR "MATERIAL"?	FORMAT OF RECEIPT	TIME-LINESS SPECIFIED? FORM SPECIFIED?	FILED WITH SEDAR (Y/N)	STORED AS FREE TEXT? (FT) FIELDS? (F)	MONITORED FOR WHEN FILED?	LATE/INCOMPLETE FILINGS DISCLOSED?	FILING RULES ENFORCED? PENALTIES APPLIED?
<b>MANDATORY ENTITLEMENTS WITHOUT OPTIONS - OTHER DISTRIBUTION</b>											
35	CASH DISTRIBUTION	PERIODICALLY AS DECLARED BY ISSUER	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO.				N	-			
36	RIGHTS /WARRANTS DISTRIBUTION	NOT SET; DETERMINED BY ISSUER/SHAREHOLDERS VOTES	DRAFT RIGHTS OFFERING CIRCULAR AND LETTER APPLICATION MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL/TRANSFER AGENT NOTICE/RIGHTS OFFERING CIRCULAR	TSX COMPANY MANUAL REFERENCE S 638-653			Y	FT			
37	STOCK DISTRIBUTION (CANADIAN-LISTED)	NOT SET; MONTHLY/QUARTERLY/ANNUALLY DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE/FORMS	TSX COMPANY MANUAL REFERENCE S 428-435	PAPER FAX EMAIL	IMMEDIATE 7 DAYS PRIOR TO RECORD	Y	FT	YES	YES	
38	STOCK DISTRIBUTION (INTERLISTED)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE				Y	FT			
39	STOCK DISTRIBUTION (U.S.-LISTED)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE				Y	FT			
<b>MANDATORY ENTITLEMENTS WITHOUT OPTIONS - REORGANIZATIONS</b>											
40	CONSOLIDATION/REVERSE STOCK SPLIT	NOT SET; DETERMINED BY ISSUER	LETTER APPLICATION/MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING	TSX COMPANY MANUAL REFERENCE S 690-695	PAPER FAX EMAIL	N/A	Y	FT	YES	NO	N/A
41	LIQUIDATION/DISSOLUTION	DETERMINED BY SHAREHOLDERS VOTES	PRESS RELEASE/TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO				Y	FT			
42	MANDATORY ACQUISITION WITHOUT OPTION	DETERMINED BY THE COMPULSORY ACQUISITION ACT	PRESS RELEASE/NOTICE OF COMPULSORY ACQUISITION				Y	FT			
43	MANDATORY CHANGE (CUSIP - ISIN NAME CHANGE, ETC.)	NOT SET; DETERMINED BY ISSUER	PRESS RELEASE/TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/LETTER APPLICATION	TSX COMPANY MANUAL REFERENCE S 468, 676-681	PAPER FAX EMAIL	IMMEDIATE	Y	FT	NO	N/A	N/A
44	MANDATORY CONVERSION	NOT REGULAR; SET AT ISSUANCE OF SHARES; DEFINED BY PROSPECTUS/TRUST INDENTURE	LETTER OF TRANSMITTAL/PRESS RELEASE/INFO CIRCULAR/LETTER APPLICATION	TSX COMPANY MANUAL REFERENCE S 699.5	PAPER FAX EMAIL	AS SET IN APPLICATION	Y	FT	NO	NO	NO
45	MANDATORY EXCHANGE	DEFINED BY PROSPECTUS/TRUST INDENTURE	LETTER OF TRANSMITTAL/PRESS RELEASE/INFO CIRCULAR				Y	FT			
46	MANDATORY EXTENSION	DEFINED BY PROSPECTUS/TRUST INDENTURE	LETTER OF TRANSMITTAL/PRESS RELEASE/INFO CIRCULAR				Y	FT			
47	MERGER - NO OPTION (MANDATORY MERGER)	NOT SET; DETERMINED BY ISSUER/SHAREHOLDERS VOTES	LETTER APPLICATION/MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL	TSX COMPANY MANUAL REFERENCE S 677, 696-697	PAPER	N/A	Y	FT	NO	NO	NO
48	PARTIAL CALL - LOTTERY (PARTIAL CALL BOND)	AS PER PAYMENT OF UNDERLYING SECURITY	TRUST INDENTURE				N	-			
49	PARTIAL CALL - PRO RATA (PARTIAL CALL BOND)	AS PER PAYMENT OF UNDERLYING SECURITY	TRUST INDENTURE				N	-			
50	PLAN OF ARRANGEMENT - NO OPTION	NOT SET; DETERMINED BY ISSUER/SHAREHOLDERS VOTES	LETTER APPLICATION/MANAGEMENT INFORMATION CIRCULAR/NOTICE OF MEETING/LETTER OF TRANSMITTAL	TSX COMPANY MANUAL REFERENCE S 677, 696-697	PAPER	N/A	Y	FT	NO	NO	NO
51	PUSH OUT	DETERMINED BY CDS BOOK-BASED SYSTEM INELIGIBILITY	TRANSFER AGENT NOTICE ON TRANSFERABILITY/LETTER OF TRANSMITTAL/CERTIFICATE OF AMENDMENT	TSX COMPANY MANUAL REFERENCE S 682-685	PAPER FAX EMAIL	N/A	N	-	NO	NO	NO
52	REDEMPTION - FULL (FULL CALL BOND)	NOT SET; DETERMINED BY SECURITY FEATURE	LETTER APPLICATION/NOTICE FROM ISSUER/TRANSFER AGENT	TSX COMPANY MANUAL REFERENCE S 698.8 699.9	PAPER FAX EMAIL	CONCURRENT WITH SHAREHOLDER RS NOTICE	N	-	YES	N/A	N/A

#	EVENT NAME	DESCRIPTION/FREQUENCY CHARACTERISTICS	DOCUMENT TYPE	UNDER WHAT RULE? SPECIFIC OR "MATERIAL"??	FORMAT OF RECEIPT	TIME-LINESS SPECIFIED? FORM SPECIFIED?	FILED WITH SEDAR (Y/N)	STORED AS FREE TEXT? (FT) FIELDS? (F)	MONITORED FOR WHEN FILED?	LATE/INCOMPLETE FILINGS DISCLOSED?	FILING RULES ENFORCED? PENALTIES APPLIED?
53	SPIN OFF (CANADIAN-LISTED)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE/LETTER APPLICATION	TSX COMPANY MANUAL REFERENCE S 677, 686-687	PAPER	N/A	Y	FT	NO	NO	NO
54	SPIN OFF (INTERLISTED)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE/LETTER APPLICATION								
55	SPIN OFF (U.S.-LISTED)	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE/LETTER APPLICATION								
56	STOCK SPLIT (CANADIAN-LISTED) - SUBDIVISION	NOT SET; DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE/LETTER APPLICATION	TSX COMPANY MANUAL REFERENCE S 682-689	PAPER FAX EMAIL	N/A	Y	FT	NO	NO	NO
57	STOCK SPLIT (CANADIAN/U.S.-INTER-LISTED) - SUBDIVISION	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE				Y	FT			
58	STOCK SPLIT (U.S.-LISTED) - SUBDIVISION	DETERMINED BY ISSUER/SHAREHOLDERS VOTES	TRANSFER AGENT NOTICE/TSX BULLETIN/DTC INFO/PRESS RELEASE				Y	FT			
59	SUBSCRIPTION - INSTALLMENT RECEIPT	MATURITY DATE	TRANSFER AGENT NOTICE/PRESS RELEASE				Y	FT			
60	UNIT SEPARATION	DETERMINED BY ISSUER	NEW ISSUE PROSPECTUS				N	-			

Note: TSX distributor information items as well as items identified as reporting only via publication, historical information products, bulletins and real-time feeds. CDS distributes information on all entitlements via electronic bulletins, with electronic attachments of original documentation where available through SEDAR.

## EXAMPLES OF COMPLEXITY OF CORPORATE ACTIONS

Below are some recent complex corporate action transactions – complex for the intermediaries to manage operationally and complex for intermediaries and investors to understand.

### **Example: Trizec Hahn**

A recent Trizec Hahn Corporation subordinated voting shares plan of arrangements/merger had four scenarios depending on whether security-holders were Canadian residents and/or qualifying U.S. persons. Under each scenario (Canadian resident/not a qualifying U.S. person, qualifying U.S. person/not a Canadian resident, both categories or neither), at least four options were offered (common share/no tax deferral on pro-rated shares, common/tax deferral, subordinated subvoting shares/no tax deferral, subvoting subordinated voting shares/tax deferral). In all, there were 17 different scenarios, the 16 above (four scenarios times four options each) and the default option for those not electing. As well, qualifying holders could elect more than one option. To help investors make a decision (and show how complex these are from an investor's perspective), industry participants were encouraged to consult their professional advisors, the management information circular, the related letter of transmittal and share election form regarding Annex M for qualifying U.S. persons, the holding company alternative, the tax consequences and tax deferral, rights of dissenting shareholders and details of the plan of arrangement. Each of the 17 options had to be given a separate CDS control account and temporary CUSIP number. Notice of this ordinary reorganization was dated April 12, with all elections to be made to CDS by April 22, 2002 – only eight business days later, with some intermediaries' underlying clients possibly scattered around the globe.

### **Example: Rancho**

This re-organization included competing offers described in a March 9, 2001, bulletin. In March 2001, there was an offer by Cypress Energy Inc. to purchase all of the outstanding Class A common shares (including the associated rights) of Rancho Energy Inc. as well as a concurrent offer by Primewest Oil and Gas Corporation to purchase all of the issued and outstanding Class A and Class B shares of Cypress Energy Inc. By April, Primewest Oil and Gas Corp. had acquired 90 per cent of Cypress Energy and began a mandatory acquisition that had 24 options, including an early (April 18) and late (May 28) submission of tender.

### **Example: WestCoast and Duke**

A Westcoast Energy Inc. common plan of arrangement/merger with options had 14 options, including exchanges of cash with exchangeable shares, exchangeable shares only or common shares. Some exchangeable shares only had options, depending on a joint tax election (which varied depending on whether the security-holder was a partnership, filing in Quebec, Canadian resident, a partnership filing in Quebec) and they were subject to pro-ration. The default option (no election is made) was complex as well:

1. If the amount of cash elected exceeded the cash available, a Westcoast shareholder who did not make a valid election would receive only shares. In these circumstances, Canadian residents who did not make a valid election would receive exchangeable shares and non-Canadian residents who did not make a valid election would receive Duke Energy common shares (participants who held shares on behalf of non-Canadian residents and were not tendering such shares were requested to withdraw the shares from CDS).
2. If the total number of Duke Energy common shares and exchangeable shares elected exceeded the shares available, a Westcoast shareholder who did not make a valid election would receive only cash.
3. If the total amount of cash elected did not exceed the cash available and the total number of exchangeable shares and Duke Energy common shares elected did not exceed the shares available, a Westcoast shareholder who did not make a valid election would receive a proportionate allocation of cash and shares based on the cash and shares remaining after taking into account valid elections.

### **Example: Citadel**

A Citadel diversified investment trust voluntary reorganization offered to issue Citadel units in exchange for units and convertible debentures of each issuer named on a list so that units and debentures, when added to the number of units or convertible debentures of each issuer held by Citadel, would constitute 9.9 per cent of the outstanding units or convertible debentures. This reorganization had 72 options. To add to the complexity for the investor, the exchange ratio for the units and convertible debentures of each issue was determined by dividing the weighted average trading price of the units and convertible debentures on the TSX during the 20 consecutive trading days ending on the deposit date by the weighted average trading price of the Citadel units on the TSX during the period of 20 consecutive trading days on the TSX ending on the deposit date. The units had a legend; there was a minimum and maximum amount. Tendering units and debenture-holders had two business days to withdraw their deposits. The closing date was changeable.

### **Example: Northampton**

In the case of Northampton Group Inc. convertible debenture 9% 22 Jul 2002, in addition to the maturity and the conversion privilege to convert the debenture to common shares prior to maturity, the issuer proposed to amend the security's trust indenture to allow debenture-holders to elect to receive a new debenture in lieu of payment on the maturity date. The interest rate on the new debenture was increased to 10 per cent from the then 9 per cent and the new maturity date was set at July 22, 2007.

### **Example: Other**

Examples of other events that show events to be getting extremely complex and innovative include ones where the dividend is paid in gold with crediting of this gold on a debit card to go to beneficial owners, who can buy groceries at a convenience store using this gold credit with the debit card.

CAWG IMPLEMENTATION SCHEDULE

CCMA Project Plan as of September 18, 2002															
ID	Task Name	Pred.	% Comp.	2002				2003				2004			
				Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
1	INSTITUTIONAL TRADE PROCESSING WORKING GROUP (ITPWG)		8%												
122	RETAIL TRADE PROCESSING WORKING GROUP (RTPWG)		11%												
236	DEMATERIALIZATION WORKING GROUP (DWG)		24%												
301	CORPORATE ACTIONS WORKING GROUP (CAWG)		15%												
302	Develop Corporate Actions White Paper		73%												
303	Identify resources to lead corporate actions work streams		100%												
304	Develop charters, identifying goals and outcomes		100%				303								
305	Conduct gap analysis between CCMA and SIA positions		100%				304								
306	Examine international examples of effective corporate actions processes		100%				304								
307	Collect supporting statistics		100%				304								
308	Identify current and desirable best practices and standards		100%				304								
309	Investigate issues surrounding central entitlement information repository		100%				304								
310	Conduct analysis and issue resolution, liaise with SROs, LRWG, SIA		100%				305								
311	Develop corporate actions white paper		95% :09FF,310SS												
312	Issue corporate actions white paper for internal CCMA comment		100%				311								
313	Receive comments on corporate actions white paper		100%				312								
314	Resolve outstanding issues, revise corporate actions white paper		100%				313								
315	Obtain CCMA Board approval to issue corporate actions white paper		0%				314								
316	Issue corporate actions white paper for public comment		0%				315								
317	Receive comments on corporate actions white paper		0%				316								
318	Prepare summary of comments received on corporate actions white paper		0%				317								
319	Publish comments received on corporate actions white paper on Web site		0%				318								

**CCMA Project Plan as of September 18, 2002**

ID	Task Name	Pred	2002				2003				2004							
			Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4				
320	Make amendments to corporate actions white paper if necessary	319					1/27				2/21							
321	Issue amendments to corporate actions white paper if any	320									2/21							
322	<b>Develop CAWG Stakeholder Communications</b>																	
323	Assist CEWG establish CAWG stakeholder communication methods, content	315					11/4				5/30							
324	<b>Establish Regulations and Standards of Practice</b>																	
325	Review and confirm detail plan	316					11/4				11/8							
326	Develop CAWG standards and best practices	316,325					11/11				5/9							
327	Send CAWG standards/best practices to SBPWG	326									5/9							
328	Liaise with LRWG to have identified regulation changes initiated	316					11/4				5/2							
329	Send LRWG final list of regulatory changes required	328									5/2							
330	<b>Implement Regulations and Standards of Practice</b>																	
331	Monitor development, ratification of regulation, codes of practice changes by responsible bodies	326,329									5/12				1/2			
332	Identify metrics to monitor implementation progress	328									5/5				12/26			
333	Publish metrics to monitor implementation of standards of practice	332													12/26			
334	Monitor implementation of regulation changes	331,332													1/5			9/10
335	<b>Monitor Implementation of Enhanced Corporate Actions Delivery Solution if Approved</b>																	
336	Monitor industry distribution solution planning	321									2/24				2/20			
337	Monitor development and implementation of new delivery solutions	334FF,336													2/23			