

# **Participation of AECSD Member Depositories in Corporate Actions Processing**

**Report of the AECSD's Correspondent Relations Working Group,  
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## Introduction.

This paper is intended to give a general overview of the current state of affairs in the corporate actions services provided by the AESCD members. This Report has been produced following analysis of the information provided in the Questionnaires completed by the AESCD member depositories.

The questions contained in the Questionnaire are similar to those asked of members of other CSD associations—the European Central Securities Depositories Association (ECSDA) in 2006 and 2007 and the Americas' Central Securities Depositories Association (ACSDA) in 2008. This was done deliberately in order to be able to compare the results obtained for various countries.

The AESCD Questionnaire is peculiar compared to those of the European and American associations in that the question in Section 1 contains a broader list of corporate action types processed by a securities depository.

The questions in the Questionnaire were grouped into four categories:

Category 1: Corporate Actions Services

Category 2: Information Services

Category 3: Annual General Meeting Services

Category 4: Other Issuer Services

The services may be provided directly or through an intermediary.

In some markets, the CSD may offer issuer services under a privileged legal position, while in other markets, the CSD is not the only provider of such services.

The Questionnaire asked four questions for the above four categories of services in order to map the differences in practices in various markets and reflect them in the survey findings:

- Does the Depository provide - or consider to provide - the service?
- Are the services provided by the Depository as mandatory service (i.e. are provided only by the CSD), or may they be provided by companies other than the CSD (i.e. the CSD competes with other securities depositories and service providers)?
- Who are the Depository's customers (intermediaries or direct users)? The direct users may be securities issuers (such services being "upstream services") and investors (such services being "downstream services")
- How does the Depository reach its customer (user of services)? - By web, through a proprietary system or in another way (e.g. paper/fax)?

In order to ease comparison of different issuer services provided by the AESCD members, each of the questions on specific services was followed by an open question allowing each depository to make comments relevant to its domestic situation which are contained in the Russian language version of the Report.

In respect of each of the four categories of issuer services, the Report contains comparative data on the eleven AESCD members and the 35 European CSDs that are ECSDA members, based on the findings from the surveys carried out by the AESCD and the ECSDA.

The AESCD members that have completed the Questionnaire are listed in Table 1 below. Unfortunately Central Depository (Kyrgyzstan) has failed to submit it in time. Out of

the twelve AECSD members, eleven service providers took part in the survey, which makes 90.9 percent.

**Таблица 1**

<b>Central Depository of Armenia</b>	<b>Completed</b>
<b>The National Depository Center (Azerbaijan)</b>	<b>Completed</b>
<b>Republican Central Securities Depository (Republic of Belarus)</b>	<b>Completed</b>
<b>Georgian Central Securities Depository</b>	<b>Completed</b>
<b>National Securities Depository of Moldova</b>	<b>Completed</b>
<b>Central Securities Depository (Kazakhstan)</b>	<b>Completed</b>
<b>Central Depository (Kyrgyzstan)</b>	-
<b>State CSD of the Republic of Uzbekistan</b>	<b>Completed</b>
<b>Interregional Stock Union (Ukraine)</b>	<b>Completed</b>
<b>The National Depository of Ukraine</b>	<b>Completed</b>
<b>Depository Clearing Company (Russian Federation)</b>	<b>Completed</b>
<b>The National Depository Center (Russian Federation)</b>	<b>Completed</b>

The conclusions section of the Russian language version of the Report contains information on the European Union's corporate actions standards developed by the ECSDA, which are of theoretical and practical interest for the AECSD members.

## **1 General Findings**

The survey has shown that issuer services are provided by many of the AECSD member depositories. Some of the securities depositories have a direct link with issuers (primarily where the securities depositories maintain issuers' securities registers), but most of the AECSD depositories offer services through intermediaries, i.e. registrars. This is due to the fact that the AECSD member countries have a multi-tiered securities registration system.

While most of the securities depositories have practical knowledge of mandatory corporate actions, such as stock conversions, consolidations, or splits, only half of the AECSD member depositories are involved in voluntary corporate actions processing. Not all of the AECSD securities depositories are involved in income distributions.

The AECSD depositories are virtually not involved in providing tax services relating to corporate actions such as dividend and coupon payments.

Some of the AECSD depositories provide registrar services to issuers. Where required by law, all depositories disclose information on securities holders. Issuers' corporate actions information is provided to shareholders both directly and through intermediaries (i.e. nominees).

Among the General Meeting Services, the most common ones are information services, namely, circulation of meeting announcements to shareholders (Meeting Announcement services). Meeting Administration and Proxy Voting services are virtually non-existent.

Only five securities depositories out of all AECSD members perform the functions of the National Numbering Agency, and two more depositories consider providing such services in the future.

In their upstream and downstream corporate action services, the AECSD members rely heavily on paper documents, while the use of Web for such communications still is not widely practiced.

Analysis of the survey findings suggests that there is a great potential for further development of corporate action services provided by the securities depositories to issuers and investors, both in terms of the range and quality of services that may be provided.

## 2 Category 1: Corporate Actions Services

Corporate actions are events initiated by an issuer in the course of its existence (starting with the formation of a company and ending with its liquidation) which impact the holders of the issuer's securities.

For many securities depositories, corporate actions services are an important part of their business. However, prior to processing any corporate action, one needs to understand its nature. At present, the terminology and procedures used in corporate actions processing often differ depending on the peculiarities of a particular nation's securities market. The same corporate action types may be called differently in different markets, or may not be treated as corporate actions at all. Analysis of the questionnaire data provided by the respondents has shown that some AECSD depositories do not view certain transactions processed on the depository's books (for instance, consolidation of securities issues) as corporate actions. This suggests that there is no uniform understanding of the role a securities depository has to play in an issuer's corporate action, and that there is no single approach to corporate actions classification.

In order to be able to understand each other and speak the same language, especially when dealing with foreign securities, it is, first of all, necessary to harmonize the concepts and create a common terminology for defining specific corporate events. Such uniform terminology will enable securities industry members to adjust their technological platforms so as to achieve a higher level of STP and a greater efficiency of their back-offices. Currently, as a measure to harmonize the terminology, the database of corporate actions terminology used in ISO 15022 and ISO 20022 is available for use by the AECSD members.

For the sake of simplicity, one may divide corporate actions into four principal categories: cash payments, stock distributions, general meetings of shareholders, and tax withholdings and relief. However, the last category does not belong to corporate actions in many of the AECSD members' countries.

These categories are further subdivided into mandatory corporate actions, i.e. those that occur without any action required on the part of shareholders or without a mandatory choice among several options of such action, and voluntary corporate actions, in which shareholders need to decide whether or not to take part in a corporate action or need to choose among several options of such action.

The findings of the survey of the AECSD members are shown in Table 2 (figures in the tables mean number of depositories). Nearly all of the AECSD member depositories are involved in processing mandatory corporate actions (82 percent of those surveyed):

- 5 securities depositories are "fully involved": Central Depository of Armenia (CDA); National Depository Center (NDC) and Depository Clearing Company (DCC), Russia; Central Securities Depository of Uzbekistan (UzCSD), and National Depository of Ukraine (NDU).
- 4 securities depositories are "partly involved": the Republican Central Securities Depository of Belarus (RCSD of Belarus); the Central Securities Depository of Kazakhstan (CSD of Kazakhstan); the National Securities Depository of Moldova (NSD of Moldova); and Ukraine's Interregional Stock Union (ISU);
- 1 securities depository intends to be involved: National Depository Center of the Azerbaijan Republic (NDC of Azerbaijan).

The Central Securities Depository of Georgia (CSD of Georgia) answered "not involved" to this question, but, at the same time, gave a positive answer to the same question

when providing details of its mandatory corporate actions services (Table 3), naming many corporate actions in which the securities depository is or might be involved (stock conversions, consolidations, and splits).

One should note the rather fine line between the options "fully involved" and "partly involved", which was pointed out by the AECSD members in their comments. In those countries where, apart from the securities depositories, securities registration services may be provided by registrars having direct contractual relations with issuers, some securities depositories preferred to answer "partly involved" rather than "fully involved", as their participation in many types of corporate actions is limited to preparing and delivering a list of securities holders to the registrar, and only in some types of corporate actions does the securities depository directly record such transactions on its books.

Apparently, it is due to the low level of corporate governance that the securities depositories have such a minor role to play in processing voluntary corporate actions (only 54 percent):

- 3 securities depositories are "fully involved": the CDA of Armenia; Russia's DCC and NDC;
- 3 securities depositories are "partly involved": the CSD of Kazakhstan and Ukraine's NDU and ISU;
- 2 securities depositories intend to be involved (when voluntary corporate actions practice emerges): the NDC of Azerbaijan, and the RCSD of Belarus.

Two securities depositories are not involved in voluntary corporate actions: the CSD of Georgia and the NSD of Moldova. One of the respondents, UzCSD, answered "not applicable", which is more likely to mean "no", as Uzbekistan has since 2008 abolished registrars and securities ownership records are maintained by the country's securities depositories, the UzCSD being the central one. In this connection, in the future, if issuers undertake voluntary corporate actions, the UzCSD will be necessarily involved in the process.

Eight of the AECSD member depositories, or 73 percent of those surveyed, said they participate in cash distributions. However, some of the depositories meant that they could potentially be involved, while no such practice exists (e.g., the RCSD of Belarus is able under a contract with the issuer to calculate and pay cash distributions on securities, but it does not do so in practice). Other securities depositories said they are "partly involved" in payments processing, but they meant that they are involved in the preparation of lists of securities holders entitled to cash distributions on the registrar's request, and deliver such lists to the registrar. The securities depositories also said they are "involved" where the issuers make payments to their investors through the securities depository (if the investor or nominee served by the securities depository is entitled to such distributions). Moreover, the CSD of Kazakhstan, for instance, has the right to maintain bank accounts for investors, and issuers are able to pay their cash distributions to such accounts. Ukraine's NDU can independently pay coupons on Eurobonds and make cash distributions on foreign securities deposited with international securities clearing and settlement systems. In Uzbekistan, only banks are permitted by law to carry out cash distributions.

Five securities depositories, or 45 percent of those surveyed (the NDC of Azerbaijan, CDA, CSD of Georgia, UzCSD, and NSD of Moldova) stated they are not involved in coupon payments and redemptions/partial redemptions.

Table 2

Involvement in upstream services (services in the interlinkage between CSD and issuer) on corporate actions						
	Yes, partly involved	Yes, fully involved	No, but under consideration	No, service provided by other party	No	Not applicable
Payments (dividends, coupons, redemptions)	7	1	1	1	1	
Tax withdrawal service	3		1		5	2
Tax reporting			1	1	6	3
Tax relief at source	1		1		7	2
Voluntary corporate actions	3	3	2		2	1
Mandatory corporate actions	4	5	1		1	

During the survey, we asked an additional question which was not included in the ECSDA Questionnaire, but which contained a list of actions included in the categories of mandatory and voluntary corporate actions. This list is given in accordance with the ECSDA's Report of Working Group 5 on Cross Border Corporate Actions and Events Processing, November 2002. The answers given to that question show which of the corporate actions the AECSD depositories have had to deal with in practice (or, taking into account the answers contained in Table 2, which are known to the securities depositories in theory). As can be seen from Table 3, the most widely practiced are compulsory stock distributions, such as conversions, consolidations (reverse splits), sub-divisions (splits), and bonus issues (100 percent of the respondents). Then come mergers (91 percent), dividend distributions, and issue consolidations (each 73 percent), cash distributions on debt securities, optional conversions, and early redemptions (each 54 percent). Less than 50 percent of the AECSD members answered "yes" about the rest of the corporate action types.

Table 3

Участие депозитария в исполнении конкретных видов корпоративных действий			
	Yes	No	Not applicable
<b><i>Mandatory corporate actions</i></b>			
A) Compulsory cash distributions, i.e.:			
1. cash dividends	8	3	
2. interest payments	6	4	1
3. redemptions (at maturity)	6	4	1
4. partial redemptions	6	4	1
B) Compulsory stock distributions, i.e.:			

1. bonus issues (capitalisations)	11		
2. compulsory conversions	11		
3. consolidations/reverse split	11		
4. enfranchisements	1	2	7
5. pari passu	8		3
6. rights issues	3	2	6
7. sub-divisions/splits	11		
<b><u>Voluntary corporate actions</u></b>			
1. optional conversions	6	4	1
2. optional redemptions	6	4	1
3. subscriptions	4	5	2
4. optional call payments	1	4	6
5. scrip dividends	5	3	3
<b><u>Other types of corporate action</u></b>			
1. compulsory call payments	3	3	4
2. enhanced scrip dividends		4	6
3. optional call payments	2	4	4
4. mergers	10	1	
<b><u>Corporate action related tax services</u></b>			
1. relief at source	3	4	4
2. tax reclaim	1	6	4

The AECSD securities depositories are virtually not involved in providing tax services relating to corporate actions such as dividend and coupon payments. These actions are handled by issuers, their payment agents and registrars authorized by the issuers. For securities depositories (the CSD of Kazakhstan, and Russia's NDC and DCC), this service means that they supply the issuer or registrar with information on the investors which enjoy tax relief provided by laws. Moreover, tax services in Russia are not part of corporate actions services. The CSD of Kazakhstan provides tax reclaim services only if the payment was distributed through the depository.

Because all the AECSD countries have multi-tiered securities holding systems, corporate actions may be processed not only by the country's CSD (where there is one), but also by other institutions: issuers, registrars, their payment agents and other securities depositories. The privilege of sole processing of voluntary and corporate actions is enjoyed by Armenia's CDA (only for securities listed or admitted to trading on the NASDAQ OMX Armenia stock exchange) and the NDC of Azerbaijan (in theory, since no such practice exists today). The UzCSD has the same privileged legal position in respect of corporate actions services.

**Table 4**

<b>Corporate actions that CSD offers as mandatory or voluntary services.</b> Mandatory meaning the service may only be managed by a CSD Voluntary meaning the service may also be managed by other entities			
	<b>Mandatory</b>	<b>Voluntary</b>	<b>Not applicable</b>
<b>Payments (dividends, coupons, redemptions)</b>	1	7	3
<b>Tax withdrawal service</b>		2	9

<b>Tax reporting</b>		1	10
<b>Tax relief at source</b>		3	8
<b>Voluntary corporate actions</b>	2	7	2
<b>Mandatory corporate actions</b>	3	8	

In mandatory and voluntary corporate actions processing, more than 73 percent of those surveyed directly interact with the issuer, with over 45 percent taking part in the issuer's cash distributions (Table 5). This happens when:

- the securities depository acts as the registrar or the head depository (the CDA, Armenia; the RCSD of Belarus; NDC and DCC, Russia; the UzCSD, Uzbekistan; the NDU and ISU, Ukraine);
- the securities depository has a nominee account in the share register maintained by the issuer (NDC and DCC, Russia).

In other cases, the AECSD members interact with issuers through registrars or head depositories.

Downstream services to investors are provided through intermediaries—the AECSD member's customers that are second-tier securities depositories acting as nominees or fiduciary managers (73 percent of voluntary corporate actions, 82 percent of mandatory corporate actions, and 64 percent of cash distributions).

The following services are provided by the AECSD depositories downstream to investors (27 percent and more of cash distributions and up to 54 percent of mandatory and voluntary corporate actions):

- cash distributions in respect of securities held in the securities depository's account made to investors maintaining owner accounts with the depository, where such investors have authorized the securities depository to receive their cash distributions from the issuers and to transfer the funds to the investors' cash accounts;
- where the securities depository acts as the payment agent under a contract with the bond issuer (NDC, Russia);
- cash distributions made through the securities depository's accounts in respect of Eurobonds and foreign securities (the CSD of Kazakhstan and the NDU, Ukraine);
- cash distributions made through investors' cash accounts maintained with the securities depository (CSD of Kazakhstan);
- for processing corporate actions in owner accounts with the securities depository.

Table 5

To whom CSD provides corporate action services? Wholesale indicates that the CSD provides the service to an intermediary Direct indicates that the CSD provides the service to the end-user						
	Upstream (issuer)			Downstream (investor)		
	Wholesale	Direct	Not applicable	Wholesale	Direct	Not applicable
Payments (dividends, coupons, redemptions)	5	5	3	7	3	4
Tax withdrawal service	3		8	3		8
Tax reporting			11			11
Tax relief at source	1		10	1		10
Voluntary corporate actions	5	8	2	8	6	2
Mandatory corporate actions	5	8	2	9	6	1

The principal channels used to communicate with issuers and investors (Table 6) are courier, mail, and fax (i.e. documents are delivered in hard copy). Electronic Documents Interchange (EDI) is used to interact with registrars (the CSD of Kazakhstan, NDC, Russia; DCC, Russia) and some bond issuers (NDC, Russia). Despite the fact that a greater part of the AECSD depositories provide services directly to issuers, only one of them offers a Web interface to issuers (NDC, Russia, where the NDC acts as the head depository for some bond issuers). For the downstream flow, two Russia-based securities depositories—NDC and DCC—use Web to communicate with investors by publishing information about the forthcoming and completed corporate actions on their websites. Certain securities depositories (the CSD of Kazakhstan; NDC, Russia; and DCC, Russia) also use proprietary EDI systems to communicate with their participants.

SWIFT is used in corporate actions processing by three AECSD members (27 percent) only to communicate with the international clearing and settlement providers (NDC, Russia; the CSD of Kazakhstan, and the NDU, Ukraine) and with banks regarding cash distributions (the CSD of Kazakhstan).

Table 6

Communication interfaces								
	Upstream (issuer)				Downstream (investor)			
	Web	Proprietary	Other	Not applicable	Web	Proprietary	Other	Not applicable
Payments (dividends, coupons, redemptions)	1	2	6	4	1	1	5	6
Tax withdrawal service			3	8			3	8
Tax reporting				11				11
Tax relief at source			1	10			1	10
Voluntary corporate actions	1	3	6	4	2	3	6	5
Mandatory corporate actions	1	4	6	3	2	3	7	4

### Comparison of Data on the AECSD and ECSDA Depositories (Corporate Actions Services Category)

The great majority of the AECSD depositories, as well as the ECSDA depositories (the total number of entities surveyed being equal to 35) provide corporate actions services.

About 90 percent of the ECSDA depositories provide upstream services for corporate actions-related cash distributions, with 65 percent of distributions effected without intermediaries. For the AECSD, the relevant figures are 73 percent and 54 percent, respectively.

In the downstream leg, most of the ECSDA and AECSD depositories provide payment services through intermediaries.

The number of securities depositories offering tax services, such as tax withholdings, tax reporting, etc., is much smaller than those processing mandatory and voluntary stock and cash distributions. Only 19 percent of the ECSDA depositories said that they offer investors a full range of tax services, and 19 percent are partly involved in the provision of such services (which totals 38 percent). Among the AECSD depositories, three securities depositories, or 27 percent, are partly involved in the process. This result is due to the fact that, for both ECSDA and AECSD depositories, the most common securities holding system is the multi-tiered one.

Also, despite the fact that a greater part of the ECSDA depositories provide services directly to issuers, only 19 percent of them offer a Web interface to issuers. Only one of the AECSD depositories uses Web to communicate with some bond issuers for which it acts as the head depository.

A review of the downstream services provided by the ECSDA depositories suggests that the number of CSDs providing such services directly has declined, and there tends to be a geographic pattern in this respect: the CSDs in the Nordic region, in the Baltics, in Eastern Europe and Great Britain. This can be explained by the transition to a multi-tiered holding system. Most of the AECSD depositories also tend to provide downstream services through intermediaries.

### 3 Category 2: Information Services

The second group of the questions in the Questionnaire (Tables 7 to 11) focused on such services provided to issuers and investors as registrar and information services, including the following ones:

- **Registrar Services:** the services relating to the maintenance of securities holders registers;
- **Shareholder Communication Services:** providing information to issuers or other persons regarding the shareholders of a company;
- **Insider reporting services:** information with regards to investors who have access to privileged information must be reported to the supervisory authorities entitled to receive confidential information;
- **Tax redemption of mutual funds – tax calculation/withholding/relief:** In some markets, the CSDs offer tax administration services to issuers of mutual funds;
- **Ownership, turnover and holding statistics:** providing statistical data reporting to interested parties with regards to the number of shareholders, transactions turnover, their holdings, etc.

#### Registrar Services

In six out of ten AECSD member countries (Azerbaijan, Armenia, Kazakhstan, Moldova, Uzbekistan, and Ukraine), it is permitted for a securities depository to combine its functions with registrar services. The positive aspect of such activity (provided that the CSDs administer registers for the most liquid securities) is that the securities depository will serve as the repository for up-to-date information on issuers' corporate actions. This arrangement is crucial for all the AECSD member countries due to the lack of reliable corporate information providers.

In Russia, securities depositories are not permitted to combine their functions with those of registrars. In Belarus and Uzbekistan there are no registrars (in Uzbekistan, registrars were abolished in 2008). In these countries, only securities depositories (i.e. the CSD and second-tier depositories) are permitted to maintain securities ownership records and registers under contracts with issuers.

Because of such variety of circumstances, the findings of the survey are very interesting. Four of the AECSD depositories (or 36 percent) responded that they provide registrar services (Table 7), but only three of them (or 27 percent) said they maintain securities holders registers—UzCSD, Uzbekistan, CDA, Armenia; and NDC of Azerbaijan). The NSD of Moldova said it is partly involved in registrar services.

Because Russian laws do not permit combining the registrar and securities depository functions, which require separate licenses, Russia's NDC and DCC indicated "not applicable" in their answers to the question about registrar services.

Although the RCSD of Belarus maintains share registers for 15 corporate issuers and the securities register for the Belarus Ministry of Finance, it also responded "not applicable", because registrars do not exist under Belarus laws. At the same time, despite the fact that there are no registrars in Uzbekistan, the UzCSD gave a positive answer to the same question, meaning the function, rather than the institutional status. It should be highlighted that the

UzCSD is the only one amongst the AECSD depositories which has the privilege to collect holder information and prepare lists of securities holders in the country. To sum up the above, one might add one more securities depository to the list of four AECSD depositories which say they perform the registrar functions, thus increasing the percentage of securities depositories providing registrar services to issuers to 45 percent. Under Ukrainian laws, a securities depository is permitted to act as a registrar, which means that the NDU may consider providing registrar services in the future. The Ukraine-based ISU does not consider providing such services.

36 percent of the securities depositories offering registrar services have direct links with issuers, and the same percentage of them have direct relations with shareholders (see Table 10).

The securities depositories acting as registrars rely heavily on paper in their communications with issuers, using mail, courier, telephone and fax (Table 11).

**Table 7**

<b>Upstream services</b>						
	<b>Yes, partly involved</b>	<b>Yes, fully involved</b>	<b>No, but under consideration</b>	<b>No, service provided by other party</b>	<b>No</b>	<b>Not applicable</b>
<b>Registrar services</b>	1	3	1	2		4
<b>Shareholder communication services</b>	4	7				
<b>Insider registration and reporting</b>	3	6		1	1	
<b>Tax redemption of mutual funds</b>				2	3	6
<b>Provision, calculation and mutual funds</b>				2	3	6
<b>Ownership, turnover and holding statistics</b>	3	6	1		0	1

### **Shareholder Communication Services**

All of the AECSD depositories provide information to issuers regarding their shareholders (where required by laws of the AECSD member countries). Seven securities depositories (or 64 percent) are fully involved in shareholder communication services, and four securities depositories (or 36 percent) are partly involved (through registrars). Uzbekistan's UzCSD and Armenia's CDA offer such service under a legal privilege (mandatory service); the CDA provides such services only for exchange-traded securities and those for which it maintains share registers. Ukraine's ISU and NDU only provide shareholder information to issuers in respect of uncertificated securities, and it is registrars that provide such information for certificated securities. Ten securities depositories—those of Azerbaijan, Armenia, Belarus, Kazakhstan, Moldova, Ukraine, Uzbekistan, and Russia's DCC and

NDC—interact with issuers directly to provide shareholder information. Seven securities depositories communicate such information to issuers through intermediaries. As a rule, securities depositories in Russia provide shareholder information through registrars which maintain share registers for issuers. They interact directly with bond issuers and where the issuer maintains its share register independently (in such cases, the securities depository prepares and submits the holder list directly to the issuer). In Moldova, shareholder information is also communicated through registrars, except for public offerings of shares, and through securities depositories maintaining registers.

Information is mostly provided in hard copy. The CSD of Kazakhstan, and Russia's DCC and NDC (27 percent) also use their proprietary EDI systems or those of the registrar (Table 11).

Shareholder information may be provided downstream by five securities depositories (45 percent): four of them are partly involved (through registrars), and one (UzCSD) is fully involved and provides this services under a legal privilege. Under Russian laws, securities depositories, including DCC and NDC, are permitted to provide information to investors regarding the shareholders of a company only where the investor holds more than 1 percent of the issuer's shares. In such a case, the securities depository, when requested by a participant or its customer (the investor), generates a request for information and sends it to the registrar. The registrar's reply is forwarded to the investor. Information is mostly provided in hard copy. The CSD of Kazakhstan and Russia's DCC and NDC also use their proprietary EDI systems for this activity.

All of the AECSD depositories transmit the corporate information received from the issuer or its registrar to their participants (nominees and investors).

The question in the Questionnaire regarding the disclosure of information to supervisory authorities, which is subdivided into upstream and downstream segments, in our view, is not completely understandable and, therefore, caused such conflicting response from the AECSD depositories. As a result, nine securities depositories said they are able to provide such upstream services, six of them being fully involved—the CSDs of Azerbaijan, Armenia, Belarus, Kazakhstan, Uzbekistan, and Ukraine's ISU. Downstream services in this segment are provided by six securities depositories, three of them being fully involved in the process—the CSDs of Azerbaijan, Belarus, and Uzbekistan. The CDA and UzCSD have a privilege to provide information to the supervisory authorities [in their countries]. As a rule, disclosure information is provided to regulators in hard copy (by courier or mail, or handed over to a regulator's officer during the field visit). SWIFT messaging is not used for the purpose.

#### **Mutual Funds Services – tax withholdings/relief, calculation, etc.)**

None of the AECSD depositories currently provides or considers providing services to mutual funds in the future. In Russia, only depositories holding a specialized depository license are permitted to provide depository services to mutual funds. Also, it is not permitted to combine the function of a settlement depository (Russia's NDC and DCC being ones) and that of a specialized depository of a mutual fund.

#### **Statistics Services**

The information obtained regarding statistics services is as follows:

- nine of the securities depositories provide statistics to issuers;
- eight of the securities depositories provide statistics to investors, except for the CSD of Kazakhstan, and Ukraine's ISU and NDU (although NDU considers providing such service in the future).

Statistics are distributed directly by half of the AECS D depositories. Russia's NDC and DCC make statistics available through their websites. The NDC also releases a monthly update containing information on exchange and OTC trades in corporate, municipal and subfederal bonds, and publishes combined quarterly reports on the bond market in the *Depositarium* magazine.

Among other statistics-related services one should note the CSD of Georgia's service offering relating to distribution of stock exchange trading data.

**Table 8**

<b>Downstream services</b>						
	<b>Yes, partly involved</b>	<b>Yes, fully involved</b>	<b>No, but under consideration</b>	<b>No, service provided by other party</b>	<b>No</b>	<b>Not applicable</b>
<b>Registrar services</b>	2	3	1	2	1	2
<b>Shareholder communication services</b>	5	1			4	1
<b>Insider registration and reporting</b>	4	3			2	2
<b>Tax redemption of mutual funds</b>				1	1	9
<b>Provision, calculation and mutual funds</b>				1	1	9
<b>Ownership, turnover and holding statistics</b>	4	4	1		2	

**Table 9**

<b>Services that CSD offers as mandatory or voluntary services.</b> Mandatory meaning the service may only be managed by a CSD Voluntary meaning the service may also be managed by other entities			
	<b>Mandatory</b>	<b>Voluntary</b>	<b>Not applicable</b>
<b>Registrar services</b>	1	6	4
<b>Shareholder communication services</b>	2	9	
<b>Insider registration and reporting</b>	2	9	

Tax redemption of mutual funds		1	10
Provision, calculation and mutual funds		2	9
Ownership, turnover and holding statistics	2	9	

**Table 10**

<b>To whom CSD provides services?</b> Wholesale indicates that the CSD provides the service to an intermediary Direct indicates that the CSD provides the service to the end-user						
	Upstream (issuer)			Downstream (investor)		
	Wholesale	Direct	Not applicable	Wholesale	Direct	Not applicable
Registrar services		5	6	1	4	7
Shareholder communication services	7	10		5	7	3
Insider registration and reporting	5	8	1	1	7	3
Tax redemption of mutual funds			9			11
Provision, calculation and mutual funds			9			11
Ownership, turnover and holding statistics	3	5	3	5	5	4

**Table 11**

<b>Communication interfaces</b>								
	Upstream (issuer)				Downstream (investor)			
	Web	Proprietary	Other	Not applicable	Web	Proprietary	Other	Not applicable
Registrar services		1	6	5			4	6

<b>Shareholder communication services</b>	2	2	10		1	1	7	2
<b>Insider registration and reporting</b>	1	1	9	1		2	6	3
<b>Tax redemption of mutual funds</b>				11			1	10
<b>Provision, calculation and mutual funds</b>				11				11
<b>Ownership, turnover and holding statistics</b>	1	1	8	2	2	2	6	3

### **Comparison of Data on the AECSD and ECSDA Depositories (Information Services Category)**

A majority of the ECSDA CSDs are involved in 'registrar services' (73 percent). 66 percent of the ECSDA CSDs offering registrar services offer them under a legal privilege. The respective figures for the AECSD depositories are 45 percent and 9 percent.

The majority (85 percent) of the CSDs offering 'registrar services' have a direct relationship with the issuers and 50 percent have a direct relationship with the shareholders. For the AECSD depositories, the figures are 45 percent, both in the upstream and downstream segments.

2/3 of the ECSDA CSDs have an automated link (through Web or a proprietary system). The AECSD depositories mostly use paper in their communications.

A majority of the CSD are involved in 'shareholder communication services' (upstream 73% and downstream 65%). 100 percent of the AECSD depositories provide shareholder communication services (in the cases strictly provided by laws) and 63 percent disclose such shareholder information to certain categories of investors. Corporate actions information is provided to shareholders both directly and through intermediaries.

The ECSDA CSDs offering these services do so in a competitive market. Two of the AECSD depositories (18 percent) provide services in respect of the securities served by them under a legal privilege.

A majority (74 percent) of the ECSDA CSDs offering 'shareholder communication services' have a direct relationship with the issuers and 48 percent have a direct relationship with the shareholders. The respective figures for the AECSD depositories are 91 percent and 63 percent.

The level of automation at the ECSDA CSDs is approximately 60 percent. The AECSD depositories mostly rely on paper in their document interchange.

The AECSD depositories do not offer mutual funds services. Such services are not frequently offered by the ECSDA depositories. Moreover, both AECSD depositories and ECSDA CSDs not involved in such services are not considering developing such services in the future.

64 percent of the ECSDA CSDs are involved in upstream 'ownership, turnover and holding statistics', with 46 percent of the CSDs offering such services downstream. The respective figures for the AECSD depositories are 82 percent and 73 percent. A vast majority

of these services are offered directly to the issuers. As for the downstream flow, 71 percent of the ECSDA CSDs offer such services directly to shareholders. 54 percent of the AECSD depositories provide statistics directly to issuers and 45 percent provide statistics services to investors.

#### 4 Category 3: Annual General Meeting Services

A group of services often used by the issuers, especially the major ones (having a large number of shareholders) is the General Meeting Services (Tables 12 to 16). We have surveyed the securities depositories' involvement in the provision of the following services included in this group:

- **General Meeting (GM) Announcement Services;**
- **GM Administration Services:** these are the services offered by the securities depository to which the complete administration relation to GM services is outsourced. The services include, among other things, printing of ballots, acceptance of GM admission requests and circulation of GM-related materials;
- **Electronic GM Administration Services:** As with GM Administration Services, but offered electronically;
- **Proxy Voting Services** are offered by the securities depository for the gathering of completed ballots and admission requests (downstream) and/ or communication to the issuer of collected ballots and admission requests for the GM;
- **Electronic Proxy Voting Services:** As Proxy Voting Services, but offered electronically.

None of the eleven AECSD depositories is involved in GM Announcement Services under a contract with the issuer (Table 12).<sup>1</sup> Five of the AECSD depositories (or 45 percent)—those of Azerbaijan, Kazakhstan, Moldova, and Russia's DCC and NDC—said they are partly involved in this service upstream. The CSD of Kazakhstan understood this service to mean preparation of lists of shareholders entitled to participate in the GM; DCC and NDC, Russia, took this service to mean receipt of a GM announcement from the issuer/registrar and forwarding the announcement to their participants. Upon receipt of any corporate information from the issuer, the Russia-based securities depositories, NDC and DCC, forward it to their participants through the EDI systems and publish announcements on their websites. In some cases, on the registrars' request, ballots and meeting agenda are circulated to the depositories' participants by mail.

In the provision of announcement services, the securities depository primarily interacts with the issuer directly (54 percent) or through the registrars, while interaction with investors may be direct or through intermediaries (nominees) (Table 15). Four securities depositories (the CSDs of Armenia and Belarus, Russia's NDC and Ukraine's NDU) are considering being involved in such upstream services, and one (Ukraine's NDU) is considering being involved in downstream services. The NDU is able to provide such services if they are provided under the issuance services contract with the issuer.

Only the NDC of Azerbaijan is partly involved in GM Administration Services, and two securities depositories—Ukraine's NDU and the CSD of Moldova—are considering providing such services.

DCC, Russia, is partly involved in proxy voting services, which may be provided on a participant's request. If the participant is the beneficial holder of shares, the proxy voting services are provided directly, and if the participant is a nominee, the services are provided to

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<sup>1</sup> According to the information received from the CSD of Kyrgyzstan, the CSD is involved in GM announcements, GM Administration and Proxy Voting Services (but this information was received late and was not included in the general analysis).

the investor through an intermediary. Georgia's CSD and Ukraine's NDU are considering being involved in these services in the future.

Electronic GM Administration Services and Proxy Voting Services are not common among the AECSD depositories. If participants and their customers are interested in these services, two securities depositories—Ukraine's NDU and Russia's NDC—are prepared to provide Electronic Proxy Voting Services.

There are no securities depositories which have a legal privilege to provide this category of services (Table 14).

In this category of services, only some of the securities depositories use Web or proprietary EDI systems to circulate announcements (Table 16). In most depositories, this category of services is not automated.

**Table 12**

<b>Upstream services</b>						
	<b>Yes, partly involved</b>	<b>Yes, fully involved</b>	<b>No, but under consideration</b>	<b>No, service provided by other party</b>	<b>No</b>	<b>Not applicable</b>
<b>Announcement services</b>	5		4	2	1	
<b>AGM administration services</b>	1		2	2	5	1
<b>Electronic AGM administration services</b>			2	2	5	2
<b>Proxy voting</b>			4		5	2
<b>Electronic proxy voting</b>			3		5	3

**Table 13**

<b>Downstream services</b>						
	<b>Yes, partly involved</b>	<b>Yes, fully involved</b>	<b>No, but under consideration</b>	<b>No, service provided by other party</b>	<b>No</b>	<b>Not applicable</b>
<b>Announcement services</b>	5		2	1	3	
<b>AGM administration services</b>	1		1	1	6	2

Electronic AGM administration services			1		6	4
Proxy voting	1		2		8	
Electronic proxy voting			2		6	3

**Table 14**

<b>Services that CSD offers as mandatory or voluntary services.</b> Mandatory meaning the service may only be managed by a CSD Voluntary meaning the service may also be managed by other entities			
	Mandatory	Voluntary	Not applicable
Announcement services		7	4
AGM administration services		5	6
Electronic AGM administration services		3	8
Proxy voting		7	4
Electronic proxy voting		3	8

**Table 15**

<b>To whom CSD provides services?</b> Wholesale indicates that the CSD provides the service to an intermediary Direct indicates that the CSD provides the service to the end-user						
	Upstream (issuer)			Downstream (investor)		
	Wholesale	Direct	Not applicable	Wholesale	Direct	Not applicable
Announcement services	2	5	4	6	5	3
AGM administration services	1	2	8	1	2	7

Electronic AGM administration services			11			11
Proxy voting		2	8	2	3	6
Electronic proxy voting			11			11
Others		2	7	1	1	8

**Table 16**

Communication interfaces								
	Upstream (issuer)				Downstream (investor)			
	Web	Proprietary	Other	Not applicable	Web	Proprietary	Other	Not applicable
Announcement services		1	4	4	2	2	5	3
AGM administration services		1	2	7		1	2	7
Electronic AGM administration services			1	9				11
Proxy voting		1	2	7		1	5	5
Electronic proxy voting				11		1		10

**Comparison of Data on the AECSD and ECSDA Depositories  
(Annual General Meeting Services Category)**

45 percent of the ECSDA CSDs are fully or partially involved in AGM Announcement Services to issuers (upstream services) and many others (14%) are considering this as an opportunity. None of the AECSD depositories is involved in GM Announcement Services to issuers, and 45 percent are partly involved in both upstream and downstream services. Another 36 percent of the AECSD depositories are considering providing upstream services and 18 percent are considering downstream services.

Up to 35 percent of the ECSDA CSDs surveyed are fully or partially involved with GM Administration Services, both upstream and downstream. Among the AECSD depositories, only one securities depository is partly involved in GM Administration Services

(upstream services), 18 percent are considering this as an opportunity (including as Electronic GM Administration Services), while 9 percent of them are partly involved in downstream services, and the same percentage is considering being involved in the future.

Proxy Voting Services are offered by 22 percent of the ECSDA CSDs, including 13 percent of Electronic Proxy Voting Services, and 22 percent of the securities depositories are considering implementing such services in the future. Among the AECS D depositories none of the securities depositories provides such services to issuers (36 percent are considering being involved in the future), only one securities depository (9 percent) is partly involved in downstream services, and 18 percent are considering being involved in the future.

Most AGM services (74-100 percent) are offered in a competitive ('voluntary') environment. For the AECS D depositories, the figure for such services is 100 percent.

Currently, only three of the ECSDA CSDs offer AGM Services via SWIFT format but ECSDA representatives believe that the adoption of the ISO 20022 messaging standard in SWIFT may change this in the future.

Comparison of the survey of the ECSDA CSDs and the AECS D depositories suggests that the AECS D members have a better developed information component in this category of services. Virtually no other services belonging to this category are provided.

## **5 Category 4: Other Issuer Services**

In the context of our survey, other issuer services included the following (Tables 17 to 21):

- the securities depository's services as a National Numbering Agency (NNA);
- assistance to issuers in assuring compliance with the EC Transparency Directive, 2004/109/EC (OAM services).

The latter service may be viewed as 'optional', as it applies only to the EU member states. The EC Transparency Directive requires that issuers disclose information (including their regular financial reports) and that at least one Official Appointed Mechanism (OAM) for the central storage of corporate information should be installed. In the future, the CSDs of Azerbaijan and Belarus are considering to assist issuers in complying with the Transparency Directive. The RCSD of Belarus has plans to assist issuers in the future in disclosing information they are required to disclose under Belarus laws.

Out of the twelve AECS D members, only five securities depositories perform the NNA functions—the CSDs of Armenia, Azerbaijan, Belarus, Russia's NDC and Ukraine's NDU. All of them are fully involved in providing NNA services upstream (Table 17), while downstream services (Table 18) are only offered by two of them, the RCSD of Belarus and the NDC, Russia. The CSD of Kazakhstan and Uzbekistan's UzCSD are considering the possibility of becoming NNAs in the future. At the initial phase, the UzCSD intends entering into an agreement with the NDC, Russia, under which the NDC will act as the Substitute Numbering Agency for Uzbekistan.

The CSDs in Azerbaijan, Armenia, Belarus, Kazakhstan and Ukraine are the exclusive providers of NNA services in their countries (45 percent), while in Russia NNA services may be provided not only by the CSD.

Five securities depositories (80 percent) out of those acting as the NNAs are able to directly interact with issuers, and one securities depository (the RCSD of Belarus) can do so

through intermediaries (Table 20). In the downstream segment, the RCSD of Belarus and the NDC, Russia, provide NNA services both directly and through intermediaries (i.e. nominees).

Most of the securities depositories (Table 21) use paper documents, while Russia's NDC uses the Web, and Ukraine's NDU employs a proprietary communications system.

**Table 17**

<b>Upstream services</b>						
	<b>Yes, partly involved</b>	<b>Yes, fully involved</b>	<b>No, but under consideration</b>	<b>No, service provided by other party</b>	<b>No</b>	<b>Not applicable</b>
<b>National number agent (NNA)</b>		5	2		4	
<b>Officially appointed mechanism (EC Transparency directive)</b>			2	1	6	2

**Table 18**

<b>Downstream services</b>						
	<b>Yes, partly involved</b>	<b>Yes, fully involved</b>	<b>No, but under consideration</b>	<b>No, service provided by other party</b>	<b>No</b>	<b>Not applicable</b>
<b>National number agent (NNA)</b>		2	1		7	1
<b>Officially appointed mechanism (EC Transparency directive)</b>		1	1		6	3

**Table 19**

<b>Services that CSD offers as mandatory or voluntary services.</b> Mandatory meaning the service may only be managed by a CSD Voluntary meaning the service may also be managed by other entities			
	<b>Mandatory</b>	<b>Voluntary</b>	<b>Not applicable</b>
<b>National number agent (NNA)</b>	5	1	4
<b>Officially appointed mechanism (EC Transparency directive)</b>		3	8

**Table 20**

<b>To whom CSD provides services?</b> Wholesale indicates that the CSD provides the service to an intermediary Direct indicates that the CSD provides the service to the end-user						
	<b>Upstream (issuer)</b>			<b>Downstream (investor)</b>		
	<b>Wholesale</b>	<b>Direct</b>	<b>Not applicable</b>	<b>Wholesale</b>	<b>Direct</b>	<b>Not applicable</b>
<b>National number agent (NNA)</b>	1	5	3	2	2	8
<b>Officially appointed mechanism (EC Transparency directive)</b>			9	1		8

**Table 21**

<b>Communication interfaces</b>						
	<b>Upstream (issuer)</b>			<b>Downstream (investor)</b>		
	<b>Web</b>	<b>Proprietary</b>	<b>Other</b>	<b>Not applicable</b>	<b>Web</b>	<b>Proprietary</b>
<b>National number agent (NNA)</b>	1	2	4	7		
<b>Officially appointed mechanism (EC Transparency directive)</b>			3	7	1	1

## **Comparison of Data on the AECSD and ECSDA Depositories (Other Services Category)**

Among the ECSDA members, 24 out of the 35 European CSDs act as National Numbering Agencies (NNAs), 63 percent of them being fully involved in NNA services, and 6 percent being partly involved. In those European countries where the CSD does not offer NNA services, normally this service is provided by the domestic Central Bank, a stock exchange or a commercial data vendor. Among the AECSD members, NNA services are offered by five depositories (45 percent). All of them are fully involved in the provision of NNA services upstream to issuers. Two more of the AECSD CSDs are considering the possibility of becoming the NNAs in the future (18 percent).

69 percent of the ECSDA CSDs provide NNA services under a legal privilege (mandatory service), while the figure for the AECSD is 45 percent.

46 percent of the ECSDA CSDs interact with issuers directly, and 23 percent through intermediaries. 45 percent out of the AECSD respondents (80 percent of the NNAs) are able to interact with issuers on a direct basis, and one securities depository (9 percent) can do so through intermediaries. Downstream services are mostly provided through intermediaries (both among the ECSDA and AECSD members).

Most of the AECSD depositories rely on paper documents, with the Web and proprietary systems accounting for 9 percent and 18 percent, respectively. As regards the ECSDA members, 31 percent of them use the Web, 17 percent use their proprietary systems, and 51 percent use other media (obviously, paper documents).

### **6 General Comparative Data on Four Categories of Services Provided by the AECSD, ECSDA and ACSDA Members**

As previously mentioned, the survey of corporate actions services contained in this Report was conducted among 35 ECSDA members in 2007 and among 21 ACSDA members in 2008. Below are the key findings of the surveys conducted by the three international industry associations: the AECSD, the ECSDA and the ACSDA.

The bar charts below (Figures 1 to 4) present data on the securities depositories' involvement in certain upstream and downstream issuer services in the following order:

- AECSD - DOWNSTREAM
- ECSDA - DOWNSTREAM
- ACSDA - DOWNSTREAM
- AECSD - UPSTREAM
- ECSDA - UPSTREAM
- ACSDA - UPSTREAM

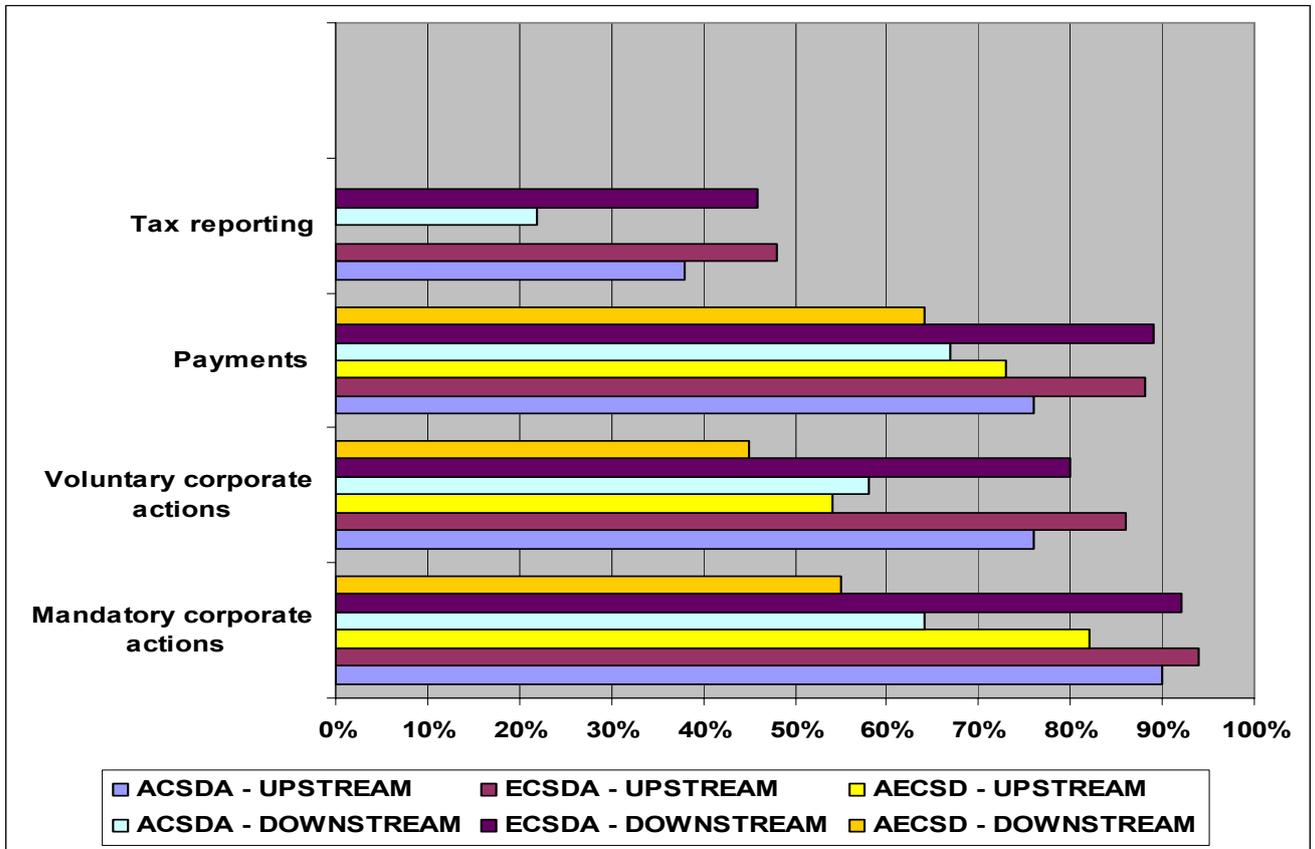
Comparison of the survey findings shows that the key areas for further development in corporate action services where the AECSD depositories are lagging behind other countries' CSD are as follows:

- Tax Services and Tax Reporting Services (the bar chart in Figure 1 does not contain data on the AECSD because no such services are provided by its member depositories);
- General Meeting Administration Services;
- Proxy Voting Services;
- NNA Services;
- Official Appointed Mechanism (OAM) Services.

- Automation of Receipt, Processing and Transfer of Corporate Actions Information.

**Chart 1**

**Category 1: Corporate Actions Services**



**Chart 2**

**Category 2: Information Services**

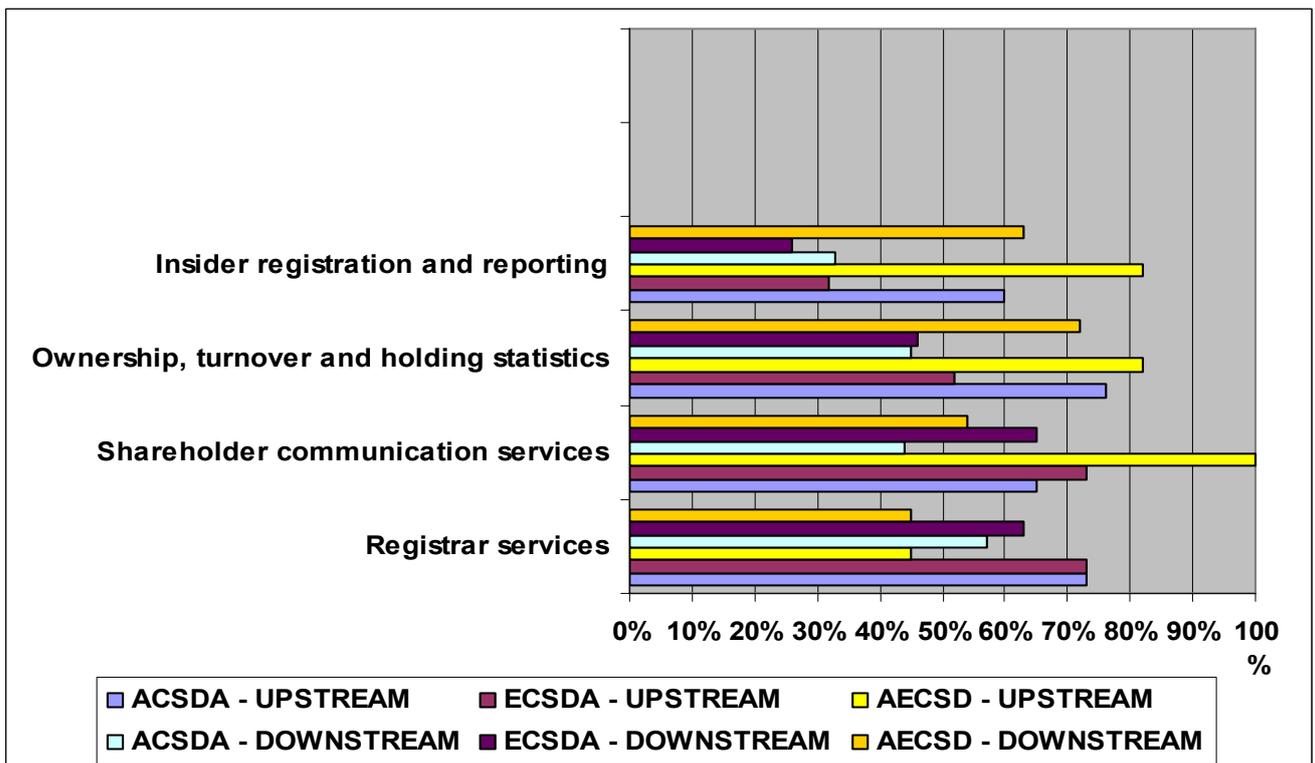


Chart 3

Category 3: Annual General Meeting Services

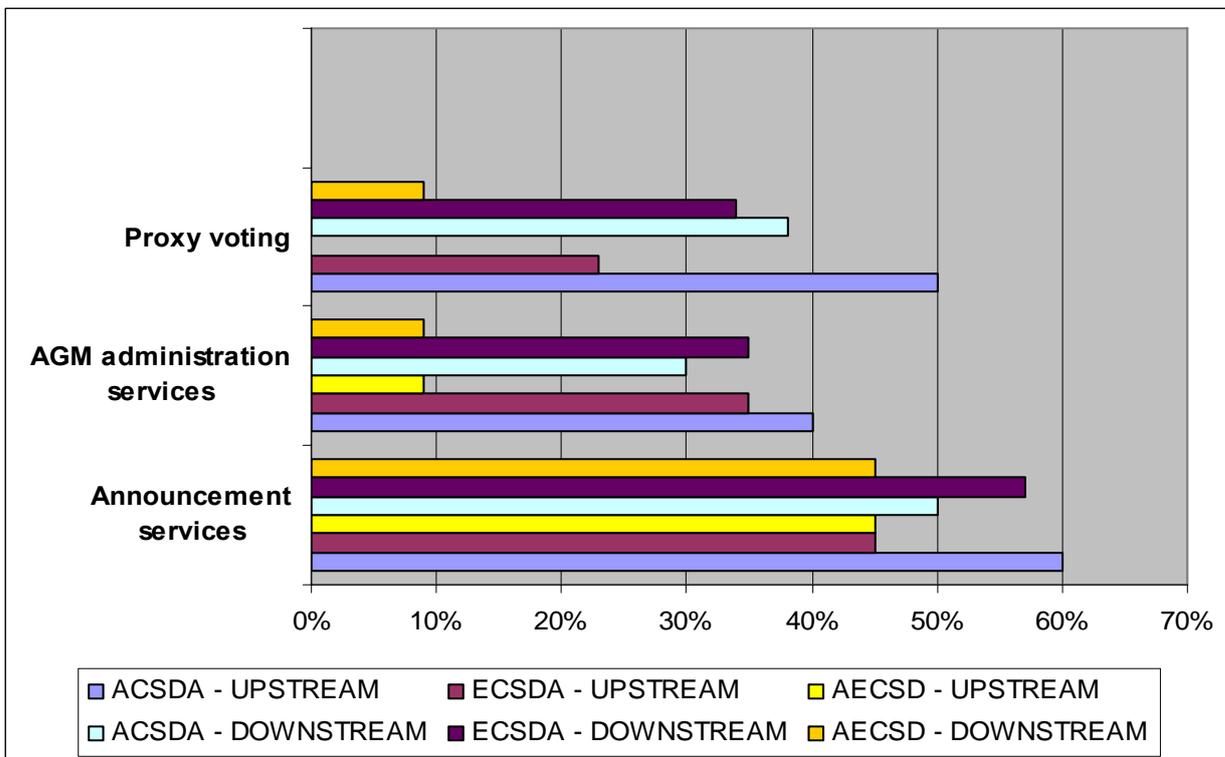


Chart 4

Category 4: Other Issuer Services

