

## REGULATION

pursuant to article 3.14.3 and 10.1.4 of the Clearing Rule Book

### CORPORATE ACTIONS

Capitalised terms used in this Regulation, and not otherwise defined, shall have the meaning as set out in the Clearing Rule Book.

This Regulation comes into force on 18 November 2019.

#### 1 General

This document is intended to be used by European Central Counterparty NV's Clearing Participants to understand the effect corporate action events have on trades between EuroCCP and its Clearing Participants. For the purposes of this document, the term 'Corporate Action' refers to any corporate event in respect to any EuroCCP/Trading platform eligible instrument. These events include, but are not limited to, dividends or other cash distributions, stock dividends, splits, share capitalisations or other elective or non-elective mandatory events, as well as rights subscriptions, options, offers and other voluntary events. This document describes how and when corporate action events affect clearance obligations and any direct interactions Clearing Participants will have with EuroCCP regarding these obligations and changes to the obligations.

EuroCCP expects all Clearing Participants to be aware of the market practices in each local market in which it trades.

In general, EuroCCP and its settlement agents where appropriate, will look to make adjustments to ensure that the Clearing Participants failing to deliver to EuroCCP pass their entitlements through EuroCCP to the participants that EuroCCP is failing to deliver to.

When a Clearing Participant has failed to deliver to EuroCCP, but another Clearing Participant has delivered, it is possible for EuroCCP to have a temporary custody position due to it having a larger single obligation to deliver to another Clearing Participant. The inability for EuroCCP to deliver a partial amount of this larger delivery out to the Clearing Participant causes EuroCCP to potentially have an overnight custody position. Various measures will be taken by EuroCCP NV and its settlement agents, to avoid the custody position, but its potential requires EuroCCP to take risk mitigation measures and involve itself in corporate action processing between its members. While these measures mitigate this risk, they do not eliminate it as it relates to certain voluntary corporate action events.

Clearing Participants should view EuroCCP as any other counterparty to a trade in which a corporate action has been announced. As with any other counterparty, trades versus EuroCCP that remain unsettled on the contractual settlement date ("fails") may be affected by the corporate action. EuroCCP Clearing Participants and/or their settlement agents are entirely responsible for the notification, satisfaction and reconciliation of any entitlement that may accrue as the result of a corporate action. EuroCCP Clearing Participants must initiate all settlement instructions and cancellations with their settlement agents as and when required on all corporate actions events unless EuroCCP NV has power of attorney over their account, in which case EuroCCP will send instructions to the Clearing Participants' settlement agents. Those settlement agents must however initiate the necessary instructions to the CSDs to match with those provided to the CSD by EuroCCPs settlement agent where appropriate.

EuroCCP in its role as a CCP, will not provide the Clearing Participants with general corporate action details.

## 2 Liability

The Clearing Participant will be held liable for all corporate events on failed trades including those relating to “clearing only” clients of the Clearing Participant.

Liability Allocation Notice and Liability Request Notice templates can be found in appendix A.

## 3 Mandatory Corporate Actions

### 3.1 Transformations (*reverse splits, mandatory exchanges including conversions, name change, merger, splits, redenomination*).

If necessary EuroCCP (or its settlement agent) will adjust all pending settlement obligations when this has not been done directly by the Central Securities Depository (CSD). EuroCCP expects all Clearing Participants to amend their positions.

### 3.2 Distributions (*cash dividends, stock dividends/scrip, spin offs, rights distributions, stock splits, bonus shares, capital return with option, dividends with cash/stock options, capital return with option*).

If necessary EuroCCP or its settlement agent will claim/pay the distribution when this has not been done directly by the CSD. All distributions will be against the default market rate.

In the event of Clearing Participants not using the mandatory PARQ indicator within T2S, which results in EuroCCP having a long depot position over record date, the failing Clearing Participants will be held liable for any resulting tax difference.

EuroCCP expects all participants to claim/pay all distributions from/to EuroCCP.

## 4 Voluntary Corporate Actions

A receiving Clearing Participant may send a Liability Request Notice to EuroCCP. This notice must be sent to [mbo@euroccp.com](mailto:mbo@euroccp.com). Chapter 6 of this Regulation contains further details.

All Clearing Participants with a pending delivery to EuroCCP may receive a Liability Allocation Notice. The Clearing Participant who will receive the notice will be randomly chosen whereby the status of the positions is irrelevant. The only order will be the contractual settlement date.

EuroCCP will have the possibility to deviate from the market deadline. If this is the case, Clearing Participants will be notified by email.

## 5 Splitting

To prevent an overnight position in case of a corporate event, EuroCCP will have the possibility to continue offering partial deliveries to Clearing Participants, even if the partial deadlines per market have passed. For these partials, the minimum threshold as described in the Regulation Settlements (paragraph 2.1) will not be applicable.

Clearing Participants will be obliged to accept these offers from EuroCCP. Failure to timely instruct and settle the offered partials may result in a potential loss due to the corporate event and such losses will be charged back to the Clearing Participant.

## 6 Buyer Protection Deadlines

### 6.1 All events excluding offers with a deposit date.

Clearing Participants with a pending long position have the possibility to send EuroCCP a Liability Request Notice until 24:00 CET on market deadline/expiration date. In case no Liability Request Notice has been received before the deadline, the default option applies.

Clearing Participants with a pending short position may receive a Liability Allocation Notice from EuroCCP up to and including 17:00 CET on market deadline/expiration date+1 day.

### 6.2 Offers (delivery after-market deadline/ deposit date )

Clearing Participants with a pending long position have the possibility to send EuroCCP a Liability Request Notice until 24:00 CET on deposit date. In case no Liability Request Notice has been received before the deadline, the default option applies.

Clearing Participants with a pending short position may receive a Liability Allocation Notice from EuroCCP up to and including 17:00 CET on deposit date+1 day.

## 7 Corporate Action Outturns

### A: Rights

Tradable Corporate Action proceeds will have to be delivered to EuroCCP within 5 business days after the effective date. EuroCCP has the possibility to start a buy in or cash settlement when a Clearing Participant is failing to do so.

### B: Equities

Equity positions as a result from a subscription, liability letter or spin off will have to be delivered to EuroCCP within 5 business days after the payment date. EuroCCP NV has the possibility to start a buy in when a Clearing Participant is failing to do so.

## 8 Allocation of losses

EuroCCP operates its settlement business on a cost recovery basis. If any loss is incurred by EuroCCP resulting from corporate actions (including tax losses), which cannot be charged to (an) individual Clearing Participant(s), EuroCCP can pass on these costs or losses to the Clearing Participants.

## 9 Securities ineligible for processing

If, in connection with any Corporate Action event (whether a *Distribution with Election, Voluntary Event or Rights Subscription* or otherwise), the security or right offered or to be distributed to Clearing Participants is determined by EuroCCP to be ineligible for processing through the standard facilities, whether due to legal or regulatory concerns, processing capabilities, or its determination that Clearing Participants may lose important rights by reason thereof, EuroCCP may treat such instrument in the same manner as an eligible instrument that becomes ineligible for processing.

## 10 Exceptions

### 10.1 Market Claims Finland

Infinity will generate market claims for matched entitled settlement instructions at end of day on record date, until the end of the 20 day detection period for a specific event. A market claim settlement instruction is generated for settlement the following business day and will have the same conditions of the underlying settlement instruction. This process is not applied to all event types and, as a result, some events must be handled bilaterally between CSD participants.

Split requests for settlement instructions for which a market claim is generated by Infinity on record date, will be rejected by EuroCCP to avoid duplication of the market claim. This rule only applies for split requests received after the record date and for events types for which Infinity automatically generates market claims. For corporate events that should be handled bilaterally between CSD participants that will not trigger the generation of a transformation or market claim post record date, EuroCCP will continue to support the split of settlement instructions entitled for these kind of events.

## 10.2 Cash dividends Sweden

There is no auto compensation in the Swedish market for instructions which failed to settle on record date. EuroCCP will instruct the related market claim (“rebook”) in the CSD system. Clearing Participants are required to do the same in order to prevent tax issues. In case the cash dividend cannot be delivered via the CSD the Clearing Participant needs to pay the full dividend amount to EuroCCP via a direct cash payment.

The cash compensation for equities not registered in Sweden will be against the net dividend rate applicable in the country of registration.

## 10.3 Cash dividends Norway

There is no auto compensation in the Norwegian market for instructions which fail to settle on record date. EuroCCP will instruct the related market claim (“FLUB”) in the CSD system. Clearing Participants are required to do the same in order to prevent tax issues.

In case the cash dividend cannot be delivered via the CSD within three days after pay date the Clearing participant needs to pay the full dividend amount to EuroCCP via a direct cash payment.

The cash compensation for equities not registered in Norway will be against the net dividend rate applicable in the country of registration.

## 10.4 Market claims and transformations Spanish market

Iberclear will process all mandatory events in line with the Corporate Action market standards in the CSD systems and the proceeds of a Corporate Action will settle in T2S. If for any reason this cannot take place EuroCCP will process manually, agreeing claims bilaterally with clients. EuroCCP will allow Iberclear to adjust settlement instructions in T2S that are entitled to the proceeds of a corporate action.

### 10.4.1 Market Claims

Market claims will be generated for matched released and held settlement instructions and are generated with the same conditions of the underlying settlement instructions, including the hold and release status.

#### **Release of held market claim**

Iberclear creates market claims by submitting two separate legs in T2S, EuroCCP’s counterparties will be required to release their own leg of the held market claim in T2S. EuroCCP releases its own leg of all held market claims upon creation of the market claim in T2S. Partial release of market claims is not supported by EuroCCP.

As market claims settle separately from the underlying settlement instructions, the underlying settlement instruction will be released by EuroCCP according to the release requests received.

#### **Release of entitled settlement instructions on record date**

Release requests for settlement instructions that would generate market claims on record date will be processed as normal during the 1<sup>st</sup> to 5<sup>th</sup> release windows. Release requests for settlement instructions in the 6<sup>th</sup> Release window will be rejected and a new release request should be submitted to EuroCCP on the next business day.

#### **Release of underlying settlement instructions post record date**

As market claims are generated on held settlement instructions and to avoid duplication of the already generated market claims during the release process, EuroCCP will use the opt out indicator for the underlying settlement instructions that are released post record date.

## 10.4.2 Transformations

Transformations of entitled matched pending settlement instructions are managed by Iberclear. EuroCCP allows Iberclear to transform released and held settlement instructions entitled for a transformation. Iberclear will cancel the entitled settlement instruction and replace the cancelled settlement instructions with a new settlement instruction according to the terms of the transformation. The same conditions will be applied by Iberclear as the original settlement instruction, including the hold and release status.

### **Release of held transformed settlement instructions**

As Iberclear creates transformations by submitting two separate legs in T2S, EuroCCP's counterparties will be required to release their own leg of the transformation in T2S. EuroCCP releases the transformed held settlement instructions upon creation of transformation in T2S. Partial release of transformed settlement instructions is not available.

### **Release of entitled settlement instructions on record date**

Release requests for settlement instructions that would generate a transformation on record date will be processed as normal during the 1<sup>st</sup> to 5<sup>th</sup> release windows. Release requests for settlement instructions in the 6<sup>th</sup> release window will be rejected.

### **United Kingdom ACON Procedures**

For *Voluntary Events* which settle through Euroclear UK & Ireland (EUI), EUI's CREST ACON process will be used. For the convenience of Clearing Participants, the below outlines the ACON process, and Clearing Participants' respective rights and responsibilities vis-à-vis EuroCCP. The below is subject in all respects to the applicable rules and procedures of CREST, as may be in effect from time to time. Clearing Participants (and their Settlement Agents) are responsible for compliance with CREST procedures, and advising themselves of any changes in such procedures.

- As with all clearance obligations created and distributed to Clearing Participants by EuroCCP, Clearing Participants or their Settlement Agents must match settlement instructions in CREST with EuroCCP. ACON instructions may only be submitted on matched transactions.
- Any events that are *not* supported by the CREST ACON process will automatically receive the default option and *no* liability notices will be accepted by EuroCCP. Clearing Participants that are *short* will be accountable for the event based upon the default option.
- A Clearing Participant that is *long* (or its Settlement Agent, as applicable) enters, via CREST ACON, a liability for the number of shares the Clearing Participant wishes to lodge in acceptance of the offer, indicating the payout option (if any) desired.
- As EuroCCP is a CCP Services Participant in EUI, CREST will automatically submit, within good time, an offsetting liability or liabilities as an ACON(s) against the applicable Clearing Participant(s) that is *short*. For further details of this allocation process within EUI please refer to Chapter 7, Section 4 of the CREST Reference Manual.
- An ACON instruction should not be input by a failing Clearing Participant that is short.
- This process results in retransmission of liability for the desired entitlement from the Clearing Participant that is *long* through EuroCCP to the Clearing Participant that is short.

### Timing

- In the UK and Ireland, the deadline for "buyer protection" via the ACON process is generally **12:00 a.m. CET** one day prior to the issuer Acceptance End Date. However, Clearing Participants should note the exact deadline communicated within the CREST KCAP message.
- Instructions received by the deadline may be allocated by EuroCCP up to one-hour after the ACON deadline. The receiver(s) of this instruction (the failing Clearing Participant(s) that is / are *short*) is obliged to protect the desired entitlement.
- "ACODs", the deletion of an ACON, have the same deadlines as ACONs.

## Transactions remaining unmatched at CREST

A failing Clearing Participant that is short that has failed to match its settlement obligation will still be potentially liable for the results of the Corporate Action in accordance with EuroCCP's Clearing Rules. Clearing Participants are reminded that they are obligated to take appropriate action to timely match their settlement obligations, and they shall be liable to EuroCCP for any losses resulting from their failure to do so. Any such liability that cannot be processed through the ACON process shall be transmitted to failing Clearing Participant(s) that is / are *short* by EuroCCP, and shall reflect the transformation of the failing settlement obligations as may be required by terms of the relevant offer.

## Nil Paid Rights

In the case of CREST, selling Clearing Participants are not permitted to deliver *nil paid rights* after the last time for delivery (the last time for delivery, unless otherwise advised, is the close of settlement in the CREST, one business day prior to the registrar's deadline for call payments, registration or elections). In the event that nil paid rights are delivered by a selling Clearing Participant after the last time for delivery, EuroCCP will attempt to deliver the securities back to the selling Clearing Participant, who will remain liable for delivering the chosen option as required by the buying Clearing Participant.

## 10.5 French Withholding Tax

EuroCCP has entered into an agreement with the French tax authorities which allows EuroCCP to collect French withholding tax (WHT) by deducting the WHT from distributed income, and to declare and pay this WHT to the French Tax Authorities.

Under normal circumstances, market claims are created and settled by Euroclear France gross of tax for matched pending settlement instructions and no WHT tax will be deducted, declared or paid by EuroCCP.

However, should EuroCCP pay a dividend to a Clearing Participant under unusual circumstances, where EuroCCP was credited directly by the French CSD, EuroCCP will withhold the standard rate applicable to non-French resident shareholders. The Clearing Participant can request EuroCCP to apply a lower rate in the period starting from the dividend payment date and ending on the fifteenth calendar day of the month following the dividend payment. In such cases, the Clearing Participant must attest that the buyer(s) of the securities are eligible to such lower rate<sup>1</sup>, provide documentation to that effect as required by EuroCCP in its capacity of Foreign Withholding Tax Agent and accept liability for the information so provided.

## 10.6 Depositary Receipt Events

EuroCCP will only send and accept liability notices for failed trades on record date. In case no ex-date has been published, positions with a trade date before the record-date and a settlement date after the record date will not be entitled to the corporate event.

Subscription letters must be sent to EuroCCP on subscription date minus 2 business days.

## 11 Currency elections

Currency elections will in general not be supported by EuroCCP, in the UK this will however be possible by the use of the DWO functionality.

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<sup>1</sup> This means that the Clearing Participant must be able to trace the settled position back to individual trades.

## Appendix A – Liability Notice Templates

### Liability Allocation Notice

CP Name :  
Fax Number :  
Telephone Number :  
Attention of :  
  
From : European Central Counterparty N.V.  
ECCP Group hotline : + 44 207 392 7490  
Group mailbox address : mbo@euroccp.com  
  
Number of pages : 1 (including this page)  
Date :

Regarding the below corporate action event:

***Name of stock – ISIN – Type of event:***

**Record / Subscription Expiration date – Offeror name if applicable:**

**Acceptance End date / Deposit Date (As applicable)**

We are writing in relation to the below trade(s) that you failed to settle by the EuroCCP Subscription Expiration/Acceptance/Deposit deadline for the above event. In accordance with EuroCCP's Regulation Corporate Actions, we pass liability to yourselves for the voluntary event elections received from failing Clearing Participants that are *long* for the quantity and instructions indicated below:

#### **Failing Short settlement obligation being held liable:**

##### **Settlement ID:**

<b><u>Number of Shares</u></b>	<b><u>Trade Date</u></b>	<b><u>Scheduled Settlement date</u></b>	<b><u>Consideration (currency)</u></b>
xxxxxxxxxx	dd/mm/yy	dd/mm/yy	CCY (Example EUR)

##### **Elections instructed:**

Examples below:

Tender xx shares of Name of Stock for xx shares of Name of new shares (ISIN of new shares)

Subscribe on xx rights at a cost of EUR xxxx so we receive xxx shs (ISIN of new shares)

**Note: Failing Clearing Participants that are short are reminded that, in accordance with EuroCCP's Regulations Corporate Actions and where applicable depending on event type, EuroCCP will cancel all related settlement instructions with immediate effect using the Power of Attorney where applicable to cancel the Clearing Participant's side of the settlement obligation. If you self-clear, you must ensure the cancellation is promptly matched upon seeing EuroCCP's cancel instruction in the market.**

If you have any questions regarding this notice then please contact the client services team on the above number.

Regards  
European Central Counterparty NV  
(Authorised signatory)

Sender Company Name

## Liability Request Notice

Attention of : European Central Counterparty N.V. – Corporate Actions Team  
ECCP Fax Number : + 31 20 570 3301  
Telephone Number : + 31 20 570 3333

CP/ICP Name :  
Account number :

From :  
Tel. number (sender) :  
Number of pages : 1 (including this page)  
Date :

Regarding the below corporate action event:

**Name of stock – ISIN – Type of event:**  
**Record / Subscription Expiration date – Offerer name if applicable:**  
**Acceptance End date / Deposit Date (As applicable)**

We are writing in relation to the below trade(s) that failed to settle by the EuroCCP Acceptance/Deposit deadline and hold European Central Counterparty (EuroCCP NV) liable for the voluntary event election(s) in accordance with the quantity and instructions specified below:

### Failing long settlement obligation being held liable:

#### Settlement ID:

<u>Number of Shares</u>	<u>Trade Date</u>	<u>Scheduled Settlement date</u>	<u>Consideration (currency)</u>
xxxxxxxxxx	dd/mm/yy	dd/mm/yy	CCY (Example EUR)

#### Elections instructed:

Examples below:

Tender xx shares of Name of Stock for xx shares of Name of new shares (ISIN of new shares)

Subscribe on xx rights at a cost of EUR xxxx so we receive xxx shs (ISIN of new shares)

**Note: This Liability Request Notice is provided pursuant, and is subject in all respects, to EuroCCP's Regulations Corporate Actions. Failing Clearing Participants that are *long* requesting liability are reminded that, upon timely receipt of a Liability Request Notice, EuroCCP will cancel all related settlement instructions with immediate effect where practicable, using the Power of Attorney where applicable to cancel the requesting failing Clearing Participant's side of the settlement obligation. If you self clear you must ensure the cancellation is also processed on your side with immediate effect.**

Regards,

Authorised signature: \_\_\_\_\_

# EuroCCP

Print name: \_\_\_\_\_  
Title: \_\_\_\_\_