

## CSA Notice 51-305

CANADIAN CAPITAL MARKETS ASSOCIATION  
CORPORATE ACTIONS AND OTHER ENTITLEMENTS  
WHITE PAPER - OCTOBER 2002

The Canadian Capital Markets Association (CCMA) is an organization founded in 2000 by participants in the Canadian financial services industries to identify and recommend ways to meet the challenges and opportunities faced by our capital markets. The current priority facing the CCMA is to promote straight-through processing (STP) strategies among Canadian capital market participants. For information on the work of the CCMA, refer to [www.ccma-acmc.ca](http://www.ccma-acmc.ca).

To promote general improvements in the area of post-trade processing, including greater STP among Canadian capital market participants, the CCMA Board of Directors formed a number of working committees, including the Corporate Actions Working Group (CAWG). For information on all of the CCMA working committees, refer to the CCMA's web-site.

On October 22, 2002, the CAWG published its Corporate Actions and Other Entitlements White Paper (CAWG White Paper). Attached as Schedule "A" to this notice is a copy of the CCMA press release in connection with the release of the CAWG White Paper. The CAWG White Paper is available on the CCMA's web site. The CAWG is seeking public comments from all interested parties by December 31, 2002. The CCMA press release describes how comments should be submitted.

The CAWG 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
- **seeks comments from all stakeholders in Canadian securities markets** on the perceived benefits and challenges of, and proposed solutions for, more efficient entitlement processing

The CAWG White Paper sets forth a number of recommendations including the following recommendations (Recommendations) that may have important implications for reporting issuers:

**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.

**Recommendation #4.c.i - Mandate entitlement payment by LVTS to recognized depositories:** Mandate the payment of corporate entitlements to recognized depositories using the Large Value Transfer System (LVTS) by a legally enforceable standard payment time to ensure that, among other things, all payments within the securities clearing and settlement system remain final and irrevocable and the costs involved in these irrevocable entitlement payments are borne by those responsible for the payments. (The LVTS is an electronic wire system introduced by the Canadian Payments Association in February 1999 to facilitate the transfer of irrevocable payments in Canadian dollars across the country in real time.)

Prior to the release of the CAWG White Paper, the CCMA made submissions to the Canadian Securities Administrators (CSA) similar to the Recommendations. These submissions dated March 23, 2001 and July 17, 2002 are available on the CCMA's web site. The March 23, 2001 submission suggests that the CSA consider mandating reporting issuers to report entitlement events to a central repository, and that one possible site for such a centralized repository could be the System for Document Analysis and Retrieval (SEDAR). The July 17, 2002 submission requests that the CSA require payment of corporate entitlements by reporting issuers to recognized depositories be made using final and irrevocable LVTS funds.

Market participants, including reporting issuers, are encouraged to comment on the CAWG White Paper. The CSA are particularly interested in the views and concerns of market participants on the Recommendations in the CAWG White Paper and on the CCMA's submissions to the CSA.

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## Schedule A

### **CCMA Issues for Public Comment Corporate Actions White Paper to Reduce Risk, Errors and Costs for Intermediaries and Investors**

**Toronto** - The Canadian Capital Markets Association (CCMA) today issued a white paper recommending ways to improve corporate actions and other entitlements processing. Industry stakeholders are encouraged to comment on the paper during the next 60 days.

"Currently, corporate actions processing is one of the most manual, error-prone, riskiest and expensive elements of entitlement processing," said Thomas C. MacMillan, chair of the CCMA. "The best solution to this problem is straight-through processing (STP) - the electronic handling of securities end-to-end through the processing chain without manual intervention."

Entitlements involve the calculation of payments of cash and/or securities to investors and range from simple dividend and interest payments to complex corporate actions that may affect the share or debt structure of a company, e.g., stock splits and takeovers. An international benchmarking study suggests that Canada's undisciplined entitlement management process contributes to lowering our country's standing in world custody service rankings.

Last year, there were trillions of dollars in entitlements processed in Canada to millions of investors. Not receiving notice of entitlements can result in late payment, investment and market risks, loss of interest and lost investment opportunities.

Problems associated with today's entitlement processing include:

- extensive use of manual and paper-based processes that lead to errors and delays
- lack of industry processing standards and best practices
- delays and/or uncertainty in the issuer payment process
- lack of, inconsistent or insufficient legislative, regulatory or rules-based frameworks with supporting incentive and compliance mechanisms
- challenges in communicating with the numerous, diverse and dispersed stakeholders in the entitlement processing chain from issuer through intermediary to investor and back.

"A key STP white paper recommendation is to mandate issuers, offerors and their agents to report entitlement information to a central hub on a timely basis," says Anita Mehta, chair of the CCMA's Corporate Actions Working Group and contributor to the white paper. "The hub must meet the tests of transparency, ease of access, accuracy, comprehensiveness, timeliness, efficiency/usability, security and reliability. No longer will the delivery of hundreds of millions of dollars to Canadian investors depend on someone spotting a small notice in an obscure publication."

In total, the white paper makes 18 recommendations. Highlights include:

- legislative, regulatory and rule changes in two areas - entitlement reporting and payment - where the greatest benefit can only be ensured by broad participation of all issuers, offerors and their agents
- new standards and best practices where concerted joint action among intermediaries can achieve straight-through processing

- additional analysis in a small number of technical areas
- effective stakeholder communication.

"The potential for STP to improve entitlement processing in Canada and globally is huge," concluded MacMillan. "In a world of increasingly complex corporate actions, STP and the proposed central entitlement information hub will provide investors with faster and reliable access to critical information they need to make investment decisions."

The white paper is available on the CCMA's Web site at [www.ccma-acmc.ca](http://www.ccma-acmc.ca). Written comments should be submitted via e-mail to [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca) no later than **December 31, 2002**.

To find out more about the white paper and recommendations, come to the CCMA's November 19 conference and investment manager workshop in Toronto.

The Canadian Capital Markets Association (CCMA) is a federally incorporated, not-for-profit organization launched to identify, analyze and recommend ways to meet the challenges and opportunities facing Canadian and international capital markets. Its mission is to enhance the competitiveness of Canada's capital markets through a forum of industry experts who provide leadership and direction to the investment community. Its core purpose is to promote straight-through processing strategies to reduce ongoing errors and processing costs; lower operational, market, settlement and systemic risks; and maintain the competitiveness of Canadian capital markets. Made up of representatives from all parts of Canada's capital markets, the CCMA will promote Canada's evolution to straight-through processing across all industry segments. CCMA volunteers have already contributed over 45,000 hours to cross-industry STP efforts.

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