

BUSINESS JUSTIFICATION

FOR THE UPDATE OF THE UNIFI (ISO 20022) FINANCIAL REPOSITORY

Name of the request:

Proxy Voting

Submitting organization:

S.W.I.F.T. srl

Standards Department

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Belgium

Scope of the registration request:

The proposal focuses on the need to automate the proxy voting process.

Overall scope of this request:

Financial Instruments	Securities, Funds, Bonds, Depository Receipts
Business area	Securities Events
Business Processes	Proxy Voting. The proposal focuses on the need to automate 'core' and 'ancillary' proxy voting processes as described below.
Core Business Processes (phase 1)	Meeting notification, including cancellations Voting, with vote registration & instructions including cancellations & status Finalisation, including meeting results dissemination & confirmation of vote execution
Ancillary Business Processes (phase 2)	Resolution proposals Share blocking and un-blocking Share re-registration Get holding positions
Out of scope	Request and confirmation of loan recall

Purpose of the registration request:

The current proxy voting process is labour intensive and expensive to deal with. This is due to a variety of factors, ie, the complexity of the chain of intermediaries, the lack of STP, the extent of manual intervention (eg, rekeying of information, use of fax), the physical mailing of meeting information, the concentration of meetings, the diversity of communication means, the lack of standardised processes and the local market specifics.

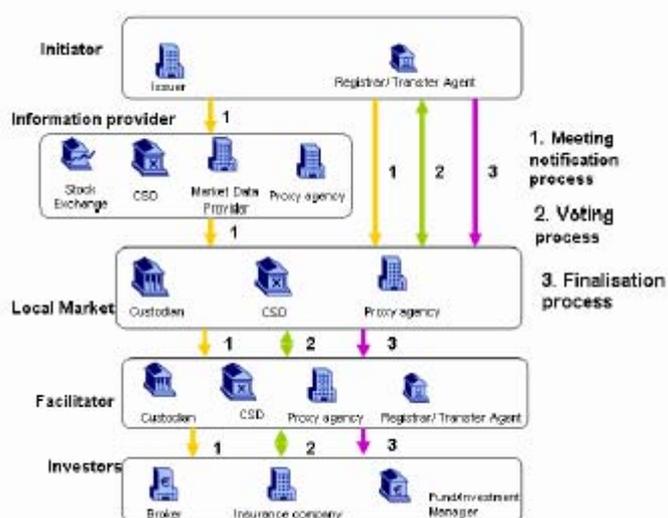
The rising importance of good corporate governance practices and the corresponding increase in regulatory pressure to vote exacerbates the inefficiencies of the current process and results in even higher costs.

The principle market driver behind the need to standardise and automate the proxy voting process is the rising global importance of good corporate governance practices and a corresponding increase in regulatory pressure on compliance with these practices. Such good corporate governance practices are mandatory in the United States and current regulatory trends in Europe indicate this could become an EU standard within 3-5 years.

The manual, non-standard nature of the current process and the existence of multiple proprietary solutions (e.g. ADP, ISS, CREST & SIS) makes compliance with growing regulatory requirements, costly. Also, no current process provides reliable audit trails, i.e. proof that a vote has been lodged with every intermediary in the process, and this inability to prove compliance introduces regulatory risk.

Community of users:

Key Transaction Flows and Players



The benefits of developing an automatable STP solution for proxy voting were identified as follows:

- **Intermediaries** (eg, custodians, proxy agencies, data vendors): Despite an increasing outsourcing trend, custodians remain committed to providing the best service possible to their

clients and have reinforced their initial support for this initiative. Their feedback indicates that improving service quality and facilitating regulatory compliance are critical. They also estimated that automation could reduce voting resource requirements by up to 40%. As many major global custodians have outsourced to a third party service provider, operational cost savings will accrue to the third parties. Where a custodian has not outsourced, they will benefit directly.

- **Investment Managers:** They are the main beneficiaries of an STP solution. They bear most of the cost of the process as charges and intermediary fees are passed on to them. Additionally, a solution providing electronic audit trails will greatly diminish the administrative burden and associated cost. If a full STP solution is implemented and used by all intermediaries, Investment Managers estimate they could reduce their voting costs by as much as 50 %. Qualitatively, an STP solution would also give Investment Managers more time to make informed decisions and exercise their fiduciary obligation to vote.

Market sizing: message flows between players.

Table 1: Meeting Notifications (million messages per year)

From/to	Initiator	Information Provider	Local Market	Facilitator	Investor	Totals
Initiator	-	0.3	0.4	-	-	0.7
Information Provider	-	-	1.3	1.7	-	3
Local Market	-	-	-	1.7	-	1.7
Facilitator	-	-	-	-	26	26
Investor	-	-	-	-	-	-
Totals	-	0.3	1.7	3.4	26	31

Table 2: Voting process (million messages per year)

From/to	Initiator	Local Market	Facilitator	Investor	Totals
Initiator	-	.7	-	-	.7
Local Market	.7	-	2	-	2.7
Facilitator	-	2	-	26	28
Investor	-	-	26	-	26
Totals	.7	2.7	28	26	58

Table 3: Finalisation process (million messages per year)

From/to	Initiator	Local Market	Facilitator	Investor	Totals
Initiator	-	.7	-	-	.7
Local Market	-	-	3.4	-	3.4
Facilitator	-	-	-	24	24
Investor	-	-	-	-	-
Totals	-	.7	3.4	24	28

Table 4: Queries (million messages per year)

From/to	Initiator	Local Market	Facilitator	Investor	Totals
Initiator	-	-	-	-	-
Local Market	.3	-	-	-	.3
Facilitator	-	.8	-	-	.8
Investor	-	-	4.3	-	4.3
Totals	.3	.8	4.3	-	5.4

Table 5: Totals (million messages per year)

From/to	Initiator	Information Provider	Local Market	Facilitator	Investor	Totals
Initiator	-	0.3	2	-	-	2.3
Information Provider	-	-	1.3	1.7	-	3
Local Market	1	-	-	7	-	7.7
Facilitator	-	-	2.8	-	76	79
Investor	-	-	-	30	-	30
Totals	1	0.3	6	39	76	122

Expected savings for the industry:

Intermediaries: Research amongst intermediaries (principally Custodians, Proxy Service Providers and Data Vendors) reveals an expectation that an automated solution could save up to 40% of the costs associated with voting. One significant global player estimates their own operational cost savings could be in the region of MEUR 1 p.a., if full automation were possible.

Based on the feedback received so far, our initial estimate is that the global intermediary layer could make potential annual savings of MEUR 20-25 if the proxy voting process were automated.

Investment Managers: Research amongst this community indicates expected savings of up to 50% on annual voting budgets, one small/medium fund manager estimating this to be around KEUR 150 per year in their case.

Again, estimates based on this initial feedback suggest potential annual savings of MEUR 50-75 globally for the Investment Manager community.

Total: Globally, we would estimate that the provision of automatable proxy voting messages could save the industry MEUR 50-100 per year.

Timing and development:

The message standards of phase 1 are planned to be ready to submit for registration to the RA in Q1 2006.

Financial Industry representatives from eight major countries will be involved in the development: Japan, Germany, United States, United Kingdom, France, Netherlands, Singapore, Italy. They represent the following players: Proxy Voting Agencies, European issuers, European banks, SIA Corporate Actions Board, CSD, Proxy Service provider, Registrars, International Corporate Governance Network, Fund managers, Custodians.

We are not aware of any other standards development initiative in this domain.

SWIFT is committed to initiate and/or participate in the future message maintenance.

Contact persons:

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Intellectual Property Rights (IPR):

SWIFT confirms its knowledge and acceptance of the UNIFI IPR policy for contributing organizations, as follows.

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.

Comments received from RMG members and disposition of comments proposed by the submitting organisation

This business justification has been submitted to the RMG for comments on 18 November 2005 with a response deadline of 19 December 2005.

The US sent one comment which is reproduced and addressed below. As a result of below disposition of comment, the business justification has been left unchanged.

US comment

The US has a comment on our page 4 of the Proxy Voting – in Table 5 – Initiator under local market is 2, rather should it be 1.8?

Disposition of US comment

The comment relates to the way the figures are rounded in the tables of estimates. All these estimates were first computed in real units of messages and then, to simplify the tables, were presented in million of messages per year, showing only 1 decimal (all the other decimals being dropped). Therefore, the totals in the tables can be slightly different from the exact result of the sum of the components shown. In the case pointed out by the US, the total million of messages exchanged between 'initiator' and 'local market' looks wrong, ie: $0.4+0.7+0.7=1.8$ million messages although the total shown in table 5 is 2.0 million messages. The totals are however correct. Adding one decimal, may indeed slightly change the resulting calculation such as $0.47+0.76+0.78=2.01$

As the totals shown are correct, we propose not to change the business justification.