Name of the request:

Securities registration and holder identification.

Submitting organization:

Euroclear SA/NV

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Scope of the registration request:

The scope of this registration request contains two major parts:

1) Messaging executed in the context of securities registration processes:

Depending on the market, different actors are involved in the securities registration process. Differences also exist as to the information that is included in current registration messages in the various markets. However, the generic processes are clearly the same in the different financial markets and the current 15022 messaging does not cover these business processes entirely.

2) Messaging executed in the context of holder identification processes:

Holder identification processes can be mandatory (e.g. Section 212 in the UK) or voluntary (e.g. when no disclosure obligations are foreseen in the law, issuers can still choose to send a request for disclosure to their holders via the intermediaries). In both cases the processes are very similar. As for securities registration processes differences exist between the different markets as to which information is being communicated. We believe this should not prevent the introduction of a messaging standard which can be applied to all markets.

The in-scope processes are represented by the shaded area in the diagrams within this business justification. As indicated in the diagram, communication can happen via the CSD or by direct communication between the holders and the issuer's agent.
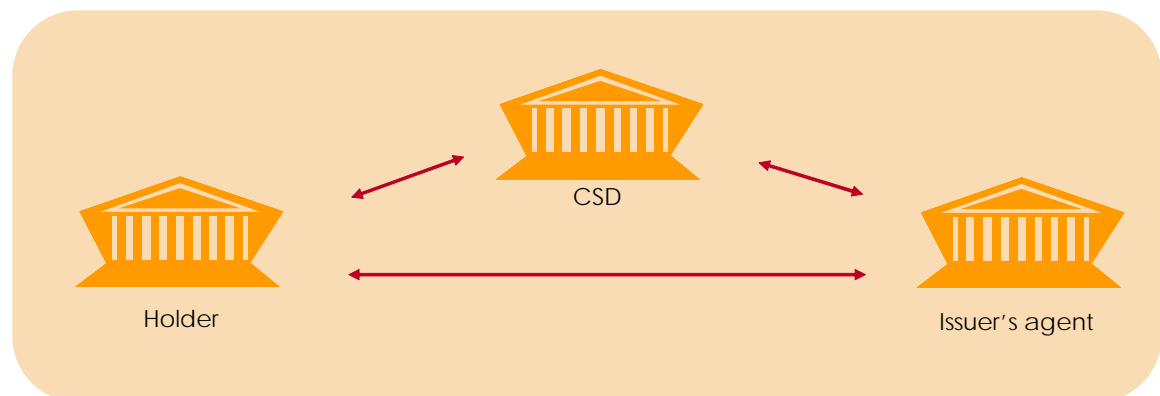
In the above diagram, additional communication should also be envisaged between the holder and its subsequent clients. These information flows are outside of the scope of this business justification and have been left out of the diagram for simplicity.

Securities registration processes:

For registered securities, registration messages need to be created for all transactions which involve a transfer of ownership or for any change of registered holding.

These transactions may be related to settlement activity, corporate actions activity or any other event which entails a change in ownership (e.g. inheritance of registered securities following the death of the original owner). In addition, in some markets, holdings may be converted between bearer and registered form.

The flows of messages will depend on the level at which the registration takes place (e.g. mostly at beneficial owner level in France versus CSD party level in the UK and Ireland) and the activity which is at the source of the change in ownership.

Having an international messaging standard for all communication flows related to the registration processes would represent an important step towards the harmonisation of such registration processes across markets and will enable the markets to move away from paper communication (reducing risk) and proprietary communication standards (reducing cost).

The following diagrams contain examples which illustrate the different information flows which will need to be covered by the new standard. Considering the wide variety of cases it is not the intention to provide an exhaustive list of examples covering all securities registration cases.

a. Example of a settlement registration process with registration at beneficial owner level where registration messages are generated by the settling CSD members (French model)
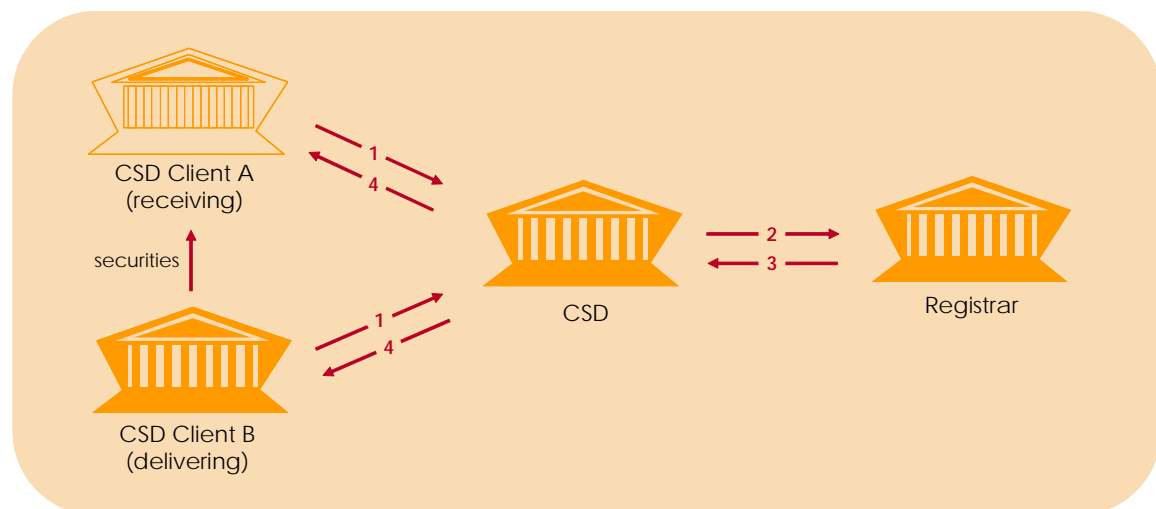

1) After deciding on a trade where CSD client B delivers securities to CSD client A, both CSD clients A & B will generate registration messages (which are totally ~~different~~ separate from and independent of ~~from~~ the original settlement instruction messages) to be sent to the CSD. A will request to include its underlying beneficial owner on the register for the newly acquired position whereas B will request to exclude its underlying beneficial owner from the register for the position it has agreed to deliver to A.

2) The CSD validates ~~and compares the two~~each request ~~inputs and creates a single~~and forwards each register update request to the registrar.

3) The registrar might accept or reject ~~the~~ each update request. If accepted, the registrar sends an acceptance confirmation to the CSD upon update of its register. If rejected, the registrar will send a rejection confirmation to the CSD. Registration requests may also be held pending, in which case a status may be returned to the CSD.

4) The CSD will communicate the received registration feedback to the settling CSD members. This feedback is ~~different~~ again separate from the settlement confirmation sent to the CSD members upon settlement of their settlement instruction.

<u>b. Example of a settlement registration process with registration at CSD party level where the registration messages are generated by the CSD (Irish model)</u>
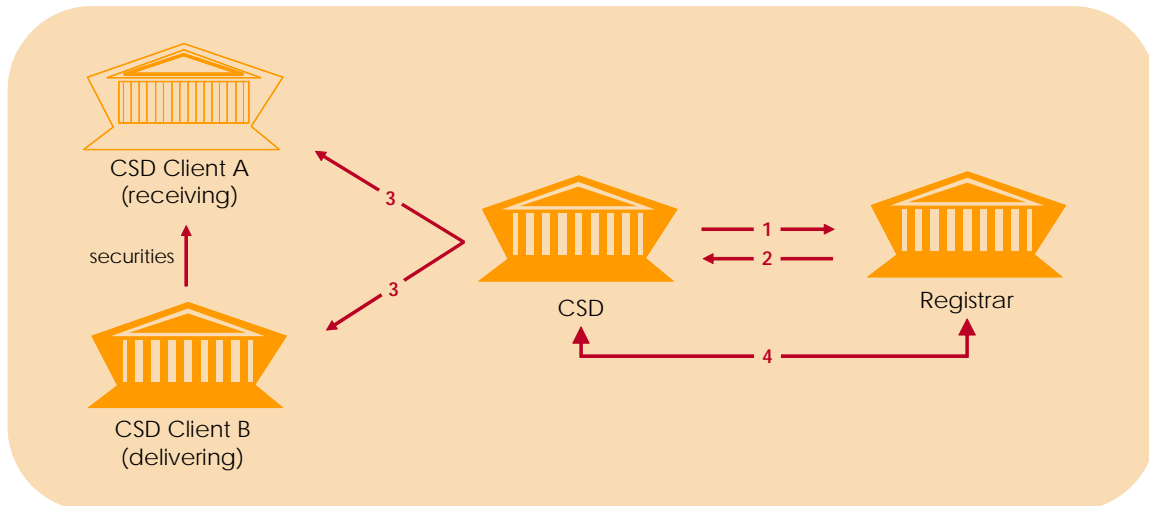
1) Upon settlement of the delivery of securities from CSD client B to CSD client A, the CSD will generate a register update request. The request will be sent to the registrar for A to be included on the register for the newly acquired position and for B to be removed from the register for the position it delivers to A.

2) The registrar might accept or reject the update request. If accepted, the registrar sends an acceptance confirmation to the CSD upon update of its register. If rejected, the registrar will send a rejection confirmation to the CSD.

3) The CSD will forward the appropriate feedback to the settling members.

4) In case a register is partly being updated by the CSD (e.g. for UK shares the operational register is kept by CREST which is the CSD), reconciliation messages will also need to be foreseen to reconcile the positions between the registrar and the CSD on a regular basis.

In summary, the generic securities registration business processes to be covered are:

– Request to be included on the register (from client to CSD, covered by ISO 15022 message MT 500, so not in the scope of this BJ)

– Request to be removed from the register (from client to CSD, covered by ISO 15022 message MT 500, so not in the scope of this BJ)

– Request for updating the register (from CSD to registrar); note that this could be a request to add or remove an entry, as well as to record a transfer

– Register update confirmation (from registrar to CSD)

– Register update rejection (from registrar to CSD)

– Register update status (from registrar to CSD)

– Confirmation of inclusion on the register (from CSD to client, covered by ISO 15022 message MT 501, so not in the scope of this BJ)

– Confirmation of removal from the register (from CSD to client, covered by ISO 15022 message MT 501, so not in the scope of this BJ)

- Registration Status (from CSD to client, covered by ISO 15022 message MT 510, so not in the scope of this BJ)

- Reconciliation of positions on register between the CSD and the registrar

- Results of reconciliation (mismatches, differences).

Holder identification processes:

Holder identification mechanisms can be mandatory or voluntary. In both cases, the information flows linked to the business processes is the same. The intermediaries needed in the process largely depend on the form of the security. Indeed, for registered securities[1] the issuer's agent will know the registered holders and will have the opportunity to approach these registered holders directly. For bearer securities, the issuer's agent will in most cases approach the CSD to reach the security holders.

All complexities in the existing business processes (e.g. disclosure thresholds) will need to be addressed by the new messages.
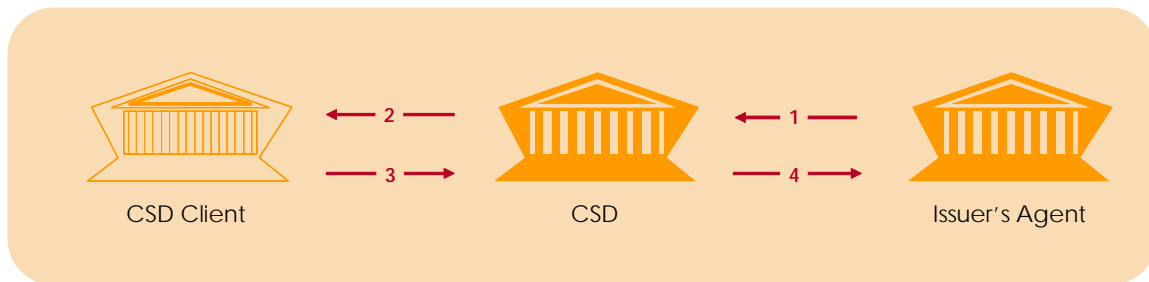
For registered securities the process typically looks as follows:
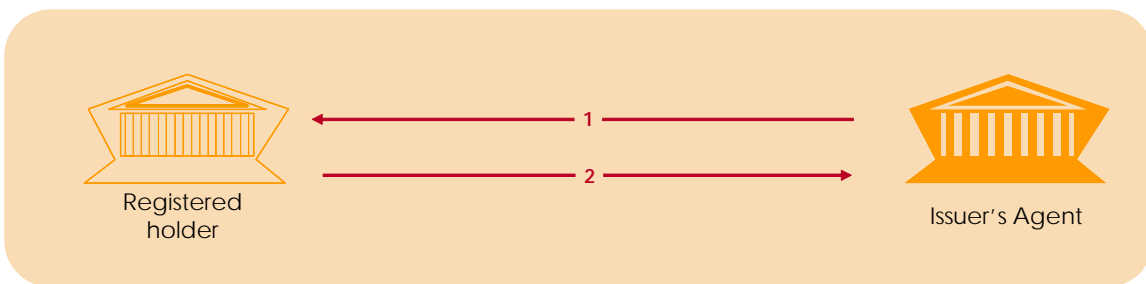
1) The issuer's agent requests disclosure of the holdings in the applicable security of the clients of the registered holder.

2) The registered holder discloses the holdings of its underlying clients in the applicable security (in case of voluntary disclosure requests, the registered holder has the choice to answer or not).

For bearer securities the process typically looks as follows:

1) The issuer's agent requests disclosure of the holdings in the applicable security of the clients of the CSD of that security.

2) The CSD will forward the request to its clients holding the concerned security.

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[1] Holder identification for registered securities is only necessary in case registration is not done at the level of the final beneficiary.

3) The CSD client discloses the holdings of its underlying clients in the applicable security (in case of voluntary disclosure requests, the CSD client holder has the choice to answer or not). Note that the underlying clients may also need to propagate the request to their own clients, and pass the corresponding replies to the CSD client.

4) The CSD forwards (potentially after consolidating the information) the information to the issuer's agent.

In summary, the generic holder identification business processes to be covered are:

- Request for disclosure

- Response to disclosure request

Purpose of the registration request:

Communication related to securities registration processes and holder identification processes is typically done by paper forms or messages proprietary to the CSD or the registrar. Paper communication involves a lot of risk as compared to formatted electronic messages whereas an international standard will prove less costly than the maintenance of proprietary communication systems.

This request is also in line with the general 20022 concepts that intend to include all areas of the financial industry which had not been included in 15022 standards. Although there are currently some ISO 15022 standard messages for registration (the MT 500, MT 501 and MT 510), we believe that these messages do not cover the whole scope of the necessary registration processes. For example, the MT 500 is used by an account owner to register or de-register his holdings and is not appropriate for use between a CSD and a registrar to record the transfer of securities between two parties. The registrar must record the deregistration from the giver and the registration with the receiver at precisely the same time, and must ensure that the transaction does not result in a negative position for the giver; with two separate messages, the registrar would need to combine both messages into a single business data flow before processing.

We therefore propose to include these processes in the scope of the business justification, in order to achieve a complete model, covering all activities involved in the registration of securities and securities transfers. Once modelling is complete, the appropriateness of existing ISO 15022 messages can be judged.

While CSD clients may be willing to implement an ISO 15022 message suite for the purpose of registering and de-registering holdings, the community of registrars may prefer to implement an ISO 20022 message solution. Note, however, that there are some markets (e.g. Germany and the Nordics) where the existing ISO 15022 messages cannot be used due to character set restrictions.

Finally, the need for such a request has been acknowledged by separate members of market associations such as ICSA (Institutional Chartered Secretaries Association), EALIC (European Association of Listed Companies) and ECSDA (European Central Securities Depositories Association).

Community of users:

These messages will directly affect ICSDs, CSDs, custodians, investors and issuers' agents.

Registration messages (2005 volumes):

France – 1,300,000

UK – 59,000,000

Ireland – 2,000,000

Holder identification requests (2005 volumes):

France - 500

UK and Ireland – 250,000 (unofficial figure)

The proposed messages will be implemented by Euroclear and the registrars in the markets served by the Euroclear group CSDs. These markets currently have an STP solution for these processes, although it is not ISO standard.

Timing and development:

The business processes described in this business justification will be implemented as part of Phase 2 of the Euroclear Single Platform, in late 2009. The candidate messages would most likely be submitted to the RA in early 2008.

Euroclear proposes to extend the remit of its existing working group (including issuer agents from the UK, French and Belgian markets) for issuer agent messaging to cover this business justification, and will re-use the existing modelling expertise and facilities. The assistance and guidance of the RA during the modelling process will continue to be sought during setup or where difficulties are experienced.

Euroclear are willing to respond to queries received by the RA in respect of these messages, and to participate in their ongoing maintenance.

Euroclear do not propose a pilot test of the messages, but will conduct acceptance testing as part of migration to the Single Platform. After this acceptance testing would be an appropriate juncture for Euroclear to apply any updates to the 'beta' messages within the repository. This would take place in late 2009.

Contact persons:

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Intellectual Property Rights (IPR):

Euroclear 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 and Disposition of Comments

SWIFT Comments

SWIFT recommends that, for the holder identification part, the candidate ISO 20022 proxy voting 'MeetingEntitlementNotification' (caev.003.001.01) that we are currently piloting before submission to the RA, be leveraged as much as possible. This message provides the same type of holder information but in another context (Proxy). To avoid inconsistencies between messages with similar functionalities, we must make sure message components, elements and even structures are reused as much as possible.

Disposition of SWIFT Comments

Euroclear fully supports the re-use of components and messages wherever appropriate, and thanks SWIFT for this suggestion which will be actively pursued during the modelling process.

UK Comments

The UK supports this BJ but would like the following considered..

At least some of the flows can be covered by re-using the transfer and custody statement of holdings messages that already exist under ISO20022, rather than developing bespoke messages for use where CSDs are involved.

Disposition of UK Comments

Euroclear fully supports the re-use of components and messages wherever appropriate, and thanks the UK for this suggestion which will be actively pursued during the modelling process. Euroclear would like to stress that the exchange of balance information is only one step in a reconciliation process, and further messages may be required for the follow-up of reconciliation failures, or to confirm successful reconciliation.

Switzerland Comments

The Swiss community supports in general the BJ.

The solution should serve not only the required messages in countries which Euroclear is dealing with, it should include other countries / markets as well.

It is important that these messages can be used in various markets.

Disposition of Switzerland Comments

Euroclear has based the Business Justification on the needs of markets served by the group, but would welcome the involvement of other markets in the modelling and especially the validation process.

France Comments

France does not support, at the present time, the BJ « Securities Registration and Holder Identification ».

France being generally in favour of standardisation projects as long as they are linked to a clear business case, considers that there is still a need for some further discussions in order to clarify the economic and technical implications that the BJ may imply for those participants using the current solutions.

More specifically, concerning the Securities Registration Process, France suggests to put in place the following actions:

- To launch a complementary communication process between the CSD and its market in order to clarify the link between the registration process and the settlement processes;

- To look at a message flow corresponding to a solution where the CSD would not be part of the securities registration process.

- To analyze why the BJ does not include the message flows linked to securities movements / change in title other than those linked to securities settlement and that require sending of information to issuers/registrars by custodians.

The argument raised for removing paper based processes is not receivable as they do not exist any longer. Also as registration flows are most often subsequent to settlement flows, generally supported by ISO 15022 standards, the proposal to use ISO 20022 standards for registration and holder identification flow should be examined very carefully.

Any change in the standards that are effectively used entails a change process. And any change process implies adjustments in the established business relations that exist in the market. So, the requirements for the use of international standards concerning these processes are not yet completely agreed from a business perspective.

Disposition of France Comments

The French market currently uses the BRN subsystem of Euroclear France to perform the registration function (in accordance with the notary role conferred on Euroclear France by the AMF). The Euroclear Single Platform will keep the BRN function, but, in line with the Euroclear goal of using only ISO messages (which is also in line with the recommendation of the IAG on Giovannini Barrier 1), will need to replace existing proprietary messages with ISO messages. As there are existing ISO messages for the communication between the participants and the CSD (e.g. the MT 500), the current proposal is to re-use those messages.

As far as the registration process is concerned, this BJ takes as its scope the exchange of messages between the CSD and the registrars, and will not affect the choice of messages available to participants for the purposes of registration.

This BJ also supports the registration process in the UK and Irish markets. Again, in those markets, the communication between participant and CSD is out of the scope of the BJ.

After discussion with representatives of the French securities market, the following points were agreed between Euroclear and the representatives involved on the conference call:

- the French market is broadly in favour of standardisation to ISO messaging

- the scope of this BJ in terms of registration processing is for communication between the CSD and the registrar only

- the BJ to be clarified to show that registration processing is required in other scenarios than securities settlement

- Representatives of Euroclear will meet with a delegation from the French securities market to discuss the implications of the implementation of the standard, and to consider migration issues arising (e.g. the possibility of a period of co-existence between the current proprietary and proposed ISO messages).

Conditional to the above, the French market agreed to withdraw its objection to this BJ

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