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European Securities and Markets Authority

By web link: www.esma.europa.eu

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Dear Sir

Draft Technical Standards for the Regulation on improving securities settlement in the European Union and on central securities depositories (CSD) – Ref 2014/299 - May 2014

Thank you for the opportunity to comment on the draft Technical Standards.

Capita Shareholder solutions provide share registration and value-added services to over 7 million shareholders on behalf of more than 1,500 companies in the UK and Ireland. We are responsible for share registers and share registration, corporate actions, share plans, share dealing and company secretarial support across a base of clients that range from small or recently floated to large multinationals.

Shareholder solutions also provides a custody and settlement operation supporting overseas companies listing on the UK market and a share dealing service primarily aimed at shareholders in its client companies. Some of these client companies are based in other EU countries. Shareholder Solutions is part of a FTSE 100 organisation, Capita plc.

We have responded to the questions where we feel these impact the services we provide for our clients. We support the recommendations subject to our specific comments below.

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We would be happy to discuss our comments further if required.

Yours sincerely

Phil Kershaw
Senior Manager – Industry and New Products

Introduction, paragraph 2

The above referenced paragraph states that “The Regulation introduces an obligation to represent all transferable securities in book entry form and to record these in CSDs before trading them on regulated markets.” We believe the reference to “...record these in CSDs before trading them...” is inconsistent with agreed Article 3(2), which states that “securities shall be recorded in book-entry form in a CSD on or before the intended settlement date...” The difference is crucial as in the UK and Ireland, a substantial majority (by number) of shareholders hold securities directly on the issuer’s register rather than through an intermediary within the CSD. To impose a requirement that securities be recorded in the CSD before trading would create a two tier market and discriminate against such investors in access to trading. It is important that the ESMA address this apparent inconsistency.

Q6: In your opinion, should CSDs be obliged to offer at least 3 daily settlements/batches per day? Of which duration? Please elaborate providing relevant data to estimate the cost and benefit associated with the different options.

In today’s markets settlement is a dynamic process with significantly more than 3 daily settlement batches/cycles occurring each day. Such timely settlement is important for corporate actions processing, for example, which relies on settlement timestamps to police participant elections. We would consequently be concerned if the technical standards in any way sought to encourage harmonise in a manner that reduced the dynamism of the current settlement model in operation in the UK and Ireland.

Q32: In your opinion, do the benefits of an extra reconciliation measure consisting in comparing the previous end of day balance with all settlements made during the day and the current end-of-day balance, outweigh the costs? Have you measured such costs? If so, please describe.

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Yes – we already do this and the costs are small once built.

Q33: Do you identify other reconciliation measures that a CSD should take to ensure the integrity of an issue (including as regards corporate actions) and that should be considered? If so, please specify which and add cost/benefit considerations.

CSDs and other related parties should be reconciling regularly irrespective of corporate actions. Those parties may choose to complete an extra reconciliation at that time, which seems sensible, but it should not be mandatory.

Capita as the issuer's agent/registrars is responsible for the calculation of entitlements when processing corporate actions, providing instructions to the CSD to update relevant securities accounts. Whilst the CSD should be responsible for reconciling accounts on its systems, they will not have access to the details of the overall issuance, by virtue of the large number of shares held directly on the issuer's register, as referenced earlier.

Q34: Do you agree with the approach outlined in these two sections? In your opinion, does the use of the double-entry accounting principle give a sufficiently robust basis for avoiding securities overdrafts, debit balances and securities creation, or should the standard also specify other measures?

For the UK and Ireland the overall basis of reconciliation described is correct. However, there are two elements of the description that are not completely accurate and that we would wish to draw attention to:

1. Firstly, you note in paragraph 148(a) that dematerialised securities are maintained by the CSD. This is true in terms of how the UK and Irish markets currently operate, but is not the proposed model for implementation of mandatory book entry holding of securities under Article 3(1) (i.e. full dematerialisation), required by 2025. The model currently under discussion in those markets envisages that shareholders who currently hold in physical form will be able to move to dematerialisation without having to be part of a CSD and, by extension, be forced to use an intermediary. This is a key requirement to ensure freedom of choice and competition and one that has been accepted by all segments of the market, including our local CSD. If you would like more detail on how this will work we would be happy to discuss the matter in more detail with you.
2. Paragraph 148(a) states that the record of 'legal ownership' for dematerialised securities is maintained by the CSD. Technically speaking this is only true in the UK intra-day, with the legal record returning to the issuer (or their agent/registrars) overnight for the purposes of calculating record date entitlements etc. In Ireland the

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legal record remains with the issuer agent/registrars at all times, with a service agreement governing their interaction and responsibilities vis a vis the CSD.

We support the recommendation and process as outlined, once point two is taken into account and providing that nothing is introduced via the technical standards that would prevent the UK and Irish markets introducing a system of dematerialisation as envisaged in point 1.

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