Professional Certificate in Securities Clearing and Settlement

Corporate actions and income processing

Corporate Actions:
Corporate actions refer to events initiated by a public company that can impact its shareholders. These actions include dividends, stock splits, mergers, acquisitions, rights issues, and more. Corporate actions can affect the value of securities, alter the capital structure of a company, or change the ownership of the company. It is essential for investors to stay informed about corporate actions to make well-informed investment decisions.

Dividends:
Dividends are a portion of a company's profits that are distributed to its shareholders. These payments are typically made in cash but can also be in the form of additional shares of stock. Dividends are usually paid on a regular basis, such as quarterly or annually, and are a way for companies to reward their shareholders for investing in the company.

Stock Splits:
A stock split is when a company divides its existing shares into multiple shares. For example, in a 2-for-1 stock split, each shareholder would receive two shares for every one share they previously owned. Stock splits do not change the overall value of an investor's holdings, but they can make shares more affordable for smaller investors.

Mergers and Acquisitions:
Mergers and acquisitions (M&A) are transactions in which one company buys another company or merges with it to form a new entity. M&A can be friendly or hostile, and the goal is often to create synergies, increase market share, or enter new markets. Shareholders of the acquired company may receive cash, stock, or a combination of both as compensation.

Rights Issues:
Rights issues are a way for companies to raise capital by offering existing shareholders the right to buy additional shares at a discounted price. Shareholders can exercise these rights or sell them on the open market. Rights issues can dilute the ownership of existing shareholders but can also provide an opportunity to buy more shares at a lower price.

Income Processing:
Income processing involves the calculation, distribution, and reconciliation of income payments to investors. This can include dividends, interest payments, and other forms of income generated by securities. Income processing ensures that investors receive the income they are entitled to in a timely and accurate manner.

Dividend Reinvestment Plans (DRIPs):
Dividend reinvestment plans allow shareholders to automatically reinvest their dividends back into the company by purchasing additional shares. This can help investors compound their returns over time by

increasing their ownership stake in the company without incurring additional transaction costs.

Interest Payments:
Interest payments are payments made by a borrower to a lender for the use of borrowed funds. In the context of securities, interest payments are typically made on bonds and other fixed-income securities. Investors who hold these securities are entitled to receive interest payments at regular intervals.

Securities Lending:
Securities lending is the practice of temporarily transferring securities from one party to another in exchange for a fee. The borrower of the securities pays the lender a fee for the right to use the securities for a specified period. Securities lending can be used to generate additional income for investors who hold securities that are in high demand.

Proxy Voting:
Proxy voting is the process by which shareholders cast their votes on corporate matters, such as electing board members or approving mergers. Shareholders who are unable to attend a company's annual general meeting can vote by proxy, either by submitting their votes in writing or appointing someone else to vote on their behalf.

Corporate Governance:
Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. Good corporate governance is essential for maintaining the trust of investors and other stakeholders. It involves transparency, accountability, and ethical behavior on the part of the company's management and board of directors.

Stock Buybacks:
Stock buybacks, also known as share repurchases, are when a company buys back its own shares from the open market. This can be a way for companies to return capital to shareholders, boost the value of their remaining shares, or offset the dilution caused by stock-based compensation. Stock buybacks can also be used to signal confidence in the company's future prospects.

Corporate Bonds:
Corporate bonds are debt securities issued by companies to raise capital. Investors who purchase corporate bonds are essentially lending money to the company in exchange for regular interest payments and the return of the principal amount at maturity. Corporate bonds are typically rated by credit rating agencies based on the issuer's creditworthiness.

Income Statement:
An income statement is a financial statement that shows a company's revenues, expenses, and profits over a specific period. It provides valuable insights into a company's financial performance and is used by investors and analysts to evaluate the company's profitability. The income statement is also known as the profit and loss statement.

Dividend Yield:

Dividend yield is a financial ratio that shows the annual dividend income as a percentage of the current market price of a stock. It is calculated by dividing the annual dividend per share by the stock price. Dividend yield is used by investors to assess the income potential of a stock and compare it to other investment options.

Capital Gains:
Capital gains are profits that result from the sale of an investment, such as stocks, bonds, or real estate. It is the difference between the sale price and the original purchase price of the investment. Capital gains can be either short-term (held for one year or less) or long-term (held for more than one year) and are subject to different tax rates.

Record Date:
The record date is the date on which a shareholder must be on the company's books in order to receive a dividend or participate in a corporate action. Investors who own shares on the record date are eligible to receive the benefits associated with that event. The record date is set by the company and is usually a few days after the ex-dividend date.

Ex-Dividend Date:
The ex-dividend date is the first day on which a stock trades without the right to the upcoming dividend payment. Investors who purchase shares on or after the ex-dividend date are not entitled to receive the dividend. The ex-dividend date is typically set two business days before the record date to allow for the settlement of trades.

Stock Dividend:
A stock dividend is a dividend payment made in the form of additional shares of stock rather than cash. It is a way for companies to reward shareholders without depleting their cash reserves. Stock dividends increase the number of shares outstanding but do not change the total value of the investor's holdings.

Special Dividend:
A special dividend is a one-time dividend payment that is not part of a company's regular dividend policy. Special dividends are typically paid when a company has excess cash or profits that it wants to distribute to shareholders. These dividends are often larger than regular dividends and can be a sign of a company's strong financial position.

Liquidation Preference:
Liquidation preference is a term used in venture capital and private equity investments to describe the order in which investors will receive their capital back in the event of a liquidation or sale of the company. Investors with a higher liquidation preference will receive their investment back before other investors, which can impact the returns of different classes of shares.

Accrued Interest:
Accrued interest is the interest that has accumulated on a bond or other fixed-income security since the last interest payment date. When an investor buys or sells a bond between interest payment dates, the buyer compensates the seller for the accrued interest up to the settlement date. Accrued interest is typically

calculated on a per-day basis.

Trade Date:
The trade date is the date on which a securities transaction is executed between a buyer and a seller. It is the date on which the buyer agrees to purchase the securities at an agreed-upon price. The trade date is important for determining the settlement date, which is when the securities and payment are exchanged between the parties.

Settlement Date:
The settlement date is the date on which a securities transaction is finalized, and the securities and payment are exchanged between the buyer and the seller. It typically occurs a few days after the trade date to allow for the clearing and settlement process to take place. The settlement date is important for recording ownership changes and transferring funds.

Trade Confirmation:
A trade confirmation is a document provided to investors after they have executed a securities transaction. It includes details such as the trade date, settlement date, security symbol, quantity, price, and any commissions or fees associated with the trade. Investors should review their trade confirmations carefully to ensure the accuracy of the transaction details.

Corporate Actions Processing:
Corporate actions processing involves the collection, validation, and dissemination of information related to corporate actions to ensure that investors are properly informed and can make timely decisions. This process includes monitoring corporate announcements, calculating entitlements, and coordinating with relevant parties to facilitate the implementation of corporate actions.

Proxy Distribution:
Proxy distribution is the process of distributing proxy materials to shareholders in advance of a company's annual general meeting. These materials typically include the proxy statement, proxy card, and other related documents that allow shareholders to vote on corporate matters. Proxy distribution ensures that shareholders have the information they need to participate in the voting process.

Entitlement Calculation:
Entitlement calculation is the process of determining how many securities or cash payments a shareholder is entitled to receive as a result of a corporate action. This calculation is based on the shareholder's holdings as of the record date and the terms of the corporate action. Entitlement calculation ensures that shareholders receive the correct benefits from corporate actions.

Income Reconciliation:
Income reconciliation is the process of verifying and reconciling income payments received by investors with the expected income based on their holdings. This process involves comparing income statements, dividend vouchers, and other documentation to ensure that investors are receiving the correct amount of income. Income reconciliation helps to identify and resolve discrepancies in income payments.

Dividend Processing:
Dividend processing involves the calculation, distribution, and reconciliation of dividend payments to shareholders. This process ensures that shareholders receive their dividends in a timely and accurate manner. Dividend processing may involve coordinating with transfer agents, custodians, and other parties to ensure that dividends are paid correctly to all eligible shareholders.

Rights Issue Subscription:
Rights issue subscription is the process by which shareholders exercise their rights to purchase additional shares at a discounted price as part of a rights issue. Shareholders who wish to participate in the rights issue must submit a subscription form and payment to the company by the deadline specified in the offer. Rights issue subscription allows shareholders to increase their ownership stake in the company at a lower cost.

Dividend Declaration:
Dividend declaration is the formal announcement by a company's board of directors that a dividend will be paid to shareholders. The dividend declaration typically includes the amount of the dividend, the record date, the ex-dividend date, and the payment date. Once the dividend is declared, it becomes a liability of the company and must be paid to eligible shareholders.

Income Distribution:
Income distribution is the process of disbursing income payments to investors based on their holdings of securities. This can include dividends, interest payments, and other forms of income generated by investments. Income distribution is typically done by transfer agents, custodians, or other financial intermediaries on behalf of the issuing company.

Stock Merger:
A stock merger is a corporate action in which two companies combine to form a single entity. In a stock merger, the shares of one company are exchanged for shares of the other company at a predetermined ratio. Shareholders of the merging companies may receive cash, stock, or a combination of both as compensation for their shares.

Acquisition Offer:
An acquisition offer is a proposal by one company to purchase another company, usually at a premium to its current market price. The acquiring company may offer cash, stock, or a combination of both as consideration for the acquisition. Shareholders of the target company must approve the acquisition offer before it can be completed.

Rights Issue Allotment:
Rights issue allotment is the process of allocating additional shares to shareholders who have exercised their rights to purchase shares as part of a rights issue. The allotment is based on the number of rights exercised by each shareholder and the total number of shares available in the rights issue. Rights issue allotment ensures that all eligible shareholders receive their entitlements.

Income Tax Withholding:
Income tax withholding is the practice of deducting a certain amount of income tax from income payments,

such as dividends and interest, before they are distributed to investors. Income tax withholding helps ensure that investors pay their taxes on investment income and comply with tax laws. The withheld taxes are typically remitted to the appropriate tax authorities.

Cumulative Dividend:
A cumulative dividend is a type of dividend that must be paid to shareholders before any dividends can be paid to holders of common stock. If a company misses a dividend payment on its cumulative preferred shares, the unpaid dividends accumulate and must be paid in full before any dividends can be paid to common shareholders. Cumulative dividends provide greater security to preferred shareholders.

Dividend Payout Ratio:
The dividend payout ratio is a financial ratio that shows the proportion of a company's earnings that are paid out as dividends to shareholders. It is calculated by dividing the total dividends paid by the net income of the company. A high dividend payout ratio indicates that the company is distributing a large portion of its earnings as dividends.

Stock Spin-Off:
A stock spin-off is a corporate action in which a company creates a new, independent company by distributing shares of the new company to its existing shareholders. The new company operates as a separate entity with its own management and business operations. Stock spin-offs are used to unlock value, streamline operations, or focus on core businesses.

Stock Repurchase Plan:
A stock repurchase plan is a program initiated by a company to buy back its own shares from the open market. The company may repurchase shares for various reasons, such as returning capital to shareholders, boosting the stock price, or offsetting the dilution caused by employee stock options. Stock repurchase plans can be conducted through open market purchases or tender offers.

Corporate Bond Coupon:
A corporate bond coupon is the fixed interest rate paid to bondholders at regular intervals until the bond matures. The coupon rate is set when the bond is issued and remains constant throughout the life of the bond. Corporate bond coupons are typically paid semi-annually or annually and are a source of income for bond investors.

Income Reinvestment Plan:
An income reinvestment plan allows investors to automatically reinvest their income payments, such as dividends and interest, back into the same securities that generated the income. This can help investors compound their returns over time by increasing their ownership stake in the securities. Income reinvestment plans are offered by many companies and mutual funds.

Dividend Imputation:
Dividend imputation is a tax system in which shareholders receive a tax credit for the corporate taxes paid by the company on its profits. This system is designed to prevent the double taxation of corporate profits, where the company pays taxes on its earnings and then shareholders pay taxes on the dividends received.

Dividend imputation is used in countries such as Australia and New Zealand.

Capital Gains Tax:
Capital gains tax is a tax on the profits made from the sale of investments, such as stocks, bonds, and real estate. The tax rate on capital gains depends on the holding period of the investment, with long-term gains typically taxed at a lower rate than short-term gains. Capital gains tax is an important consideration for investors when selling assets.

Dividend Capture Strategy:
A dividend capture strategy is an investment approach in which investors buy a stock just before the ex-dividend date to capture the dividend payment and then sell the stock shortly thereafter. The goal of this strategy is to earn the dividend income while minimizing exposure to the stock's price fluctuations. Dividend capture strategies require careful timing and may involve trading costs.

Stock Settlement Cycle:
The stock settlement cycle is the period of time between the trade date and the settlement date of a securities transaction. In most markets, the standard settlement cycle is two business days, known as T+2 (trade date plus two days). This allows for the clearing and settlement of trades, the transfer of securities, and the exchange of funds between buyers and sellers.

Dividend Record Date:
The dividend record date is the date on which a shareholder must be on the company's books in order to receive a dividend. Investors who own shares on the record date are eligible to receive the dividend, regardless of when the shares were purchased. The dividend record date is set by the company and is typically a few days before the ex-dividend date.

Special Dividend Declaration:
A special dividend declaration is the formal announcement by a company's board of directors that a special dividend will be paid to shareholders. Special dividends are typically one-time payments that are not part of the company's regular dividend policy. The declaration of a special dividend is subject to approval by the board of directors and must comply with regulatory requirements.

Accrued Interest Calculation:
Accrued interest calculation is the process of determining the amount of interest that has accumulated on a bond or other fixed-income security since the last interest payment date. Accrued interest is calculated based on the coupon rate, the number of days since the last payment, and the face value of the security. Accrued interest is typically quoted on a per $1,000 basis.

Trade Settlement Instructions:
Trade settlement instructions are the details provided by the buyer and seller of securities to their respective brokers or custodians to facilitate the settlement of a securities transaction. These instructions include information such as the security symbol, quantity, price, settlement date, and account details. Trade settlement instructions ensure that the securities and payment are exchanged correctly and efficiently.

Dividend Payment Date:
The dividend payment date is the date on which a company distributes dividend payments to its shareholders. This is the date when eligible shareholders receive cash or additional shares of stock as their dividend entitlement. The dividend payment date is specified by the company and typically follows the record date and ex-dividend date in the dividend timeline.

Income Tax Reporting:
Income tax reporting is the process of reporting investment income, such as dividends, interest, and capital gains, to the tax authorities. Investors are required to report their investment income on their tax returns and pay any applicable taxes on that income. Income tax reporting helps ensure compliance with tax laws and regulations.

Cumulative Dividend Arrear:
Cumulative dividend arrear is the unpaid cumulative dividends on preferred shares that have accumulated over time. If a company fails to pay the required dividends on its cumulative preferred shares, the unpaid dividends become arrears and must be paid in full before any dividends can be paid to common shareholders. Cumulative dividend arrears represent a liability of the company.

Dividend Reinvestment Plan Enrollment:
Dividend reinvestment plan enrollment allows shareholders to sign up for an automatic reinvestment of their dividends into additional shares of stock. By en