Explaining Corporate Actions

InvestDirect

HSBC

The world's local bank

Corporate Action

What is a Corporate Action?

A Corporate Action is any action that a company takes, which materially affects the shareholder in either the number of shares they hold, the amount of capital they have invested, or how and where the shares can be traded.

Why do companies have Corporate Actions?

There are a number of reasons. They may:

- change the company name to better reflect what they currently do
- reduce the number of shares in the market by way of a consolidation to increase the share price
- increase the number of shares by way of a sub-division to decrease the share price
- give out bonus shares
- increase the number of shares and raise capital by having a rights issue or share offer.

What types of Corporate Actions are there?

There are two types:

Mandatory – where an investment decision by the shareholder is not required

Voluntary – where an investment decision by the shareholder is required, even if it is to take no action.

Mandatory Corporate Actions

These are events where the company has already received shareholder approval at an Annual General Meeting (AGM) or Extraordinary General Meeting (EGM).

They include:

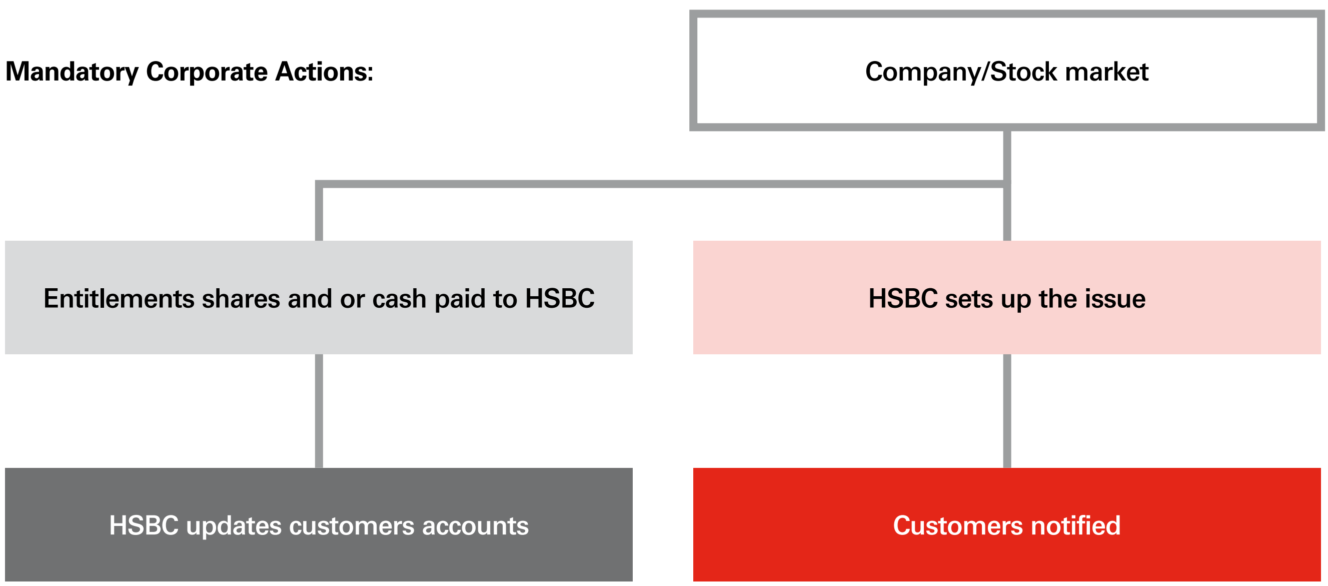
Bonus issues – where shareholders receive more shares without having to invest any money based on the number of shares already held.

Sub-Division – when a company multiplies its existing shares into new shares of a lower par value. This change will alter the number of shares authorised within the company and will therefore, affect the market price per share. Shareholder will hold more shares but at a lower price.

Consolidation – when a company consolidates its existing share capital into fewer shares of a higher par value. This change will alter the number of shares authorised within the company and will therefore, affect the market price per share. Shareholder will hold fewer shares but at a higher price.

Liquidation – a company goes into liquidation when the business objectives can no longer be applied due to factors such as debt default by the company. The company assets are realised and creditors and holders of capital are paid out according to their priority, if adequate funds are available. In these instances the shares will no longer be tradable and removed from the market.

Mandatory Corporate Actions:



Voluntary Corporate Actions

These are events that take place but require the shareholder to make an investment decision. This is known as an 'election'.

They include:

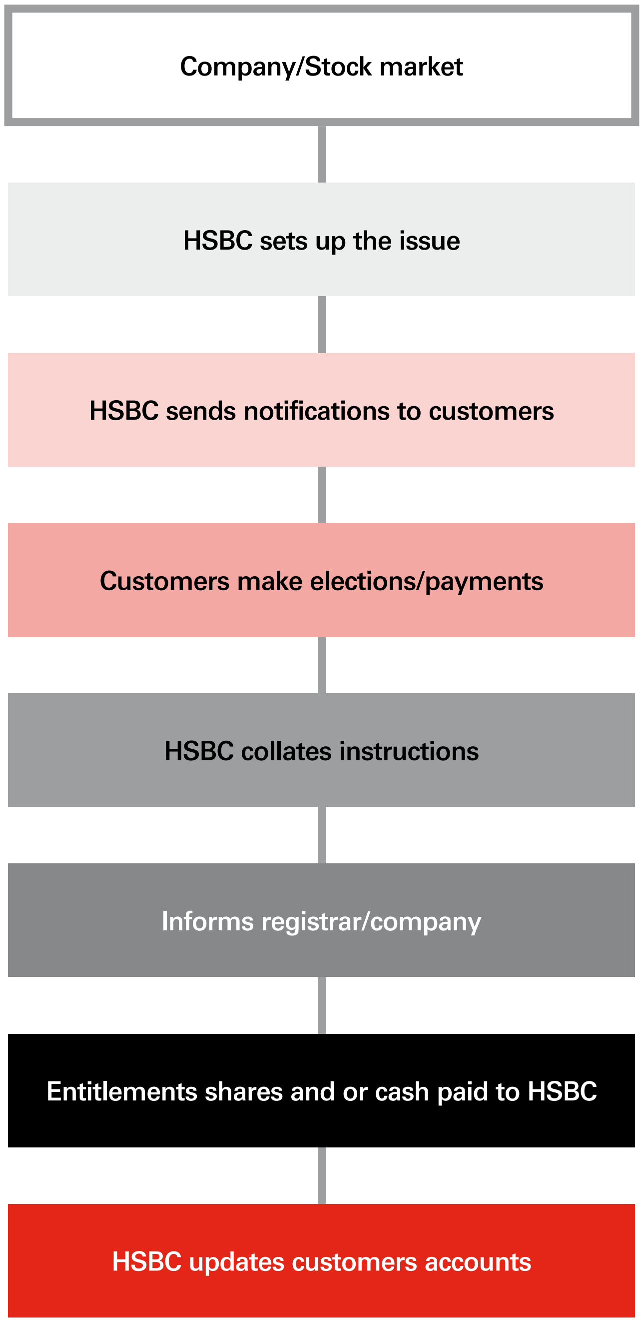
Rights issues – where a company raises capital by issuing rights to shareholders, to receive additional shares in the company at a cost, discounted to the current market price.

Open offer – this has similarities with a rights issue, but does not have any rights so the option to sell is not available. The company does not pay out any lapse proceeds.

Tender offer – an offer to purchase outstanding shares of another company at a specified price. The company can make the offer itself, or through a subsidiary of the company, or a third party company.

Takeover – a voluntary event where a bidding company attempts to acquire a controlling interest (50% plus one share) in another company.

There are regulations on a takeover, which limit the length of time an offer can remain open. The percentage of the company that the company making the offer has to be in control of to allow the offer to continue.



Where to go on HSBC website

Access www.hsbc.co.uk
and log on to internet banking

Under "Savings and Investments" tab,
select INVESTDIRECT

Select "Products and Services" and
"Corporate Actions"

Issues can now be actioned using
the options available on this page

What will I receive when a Corporate Action is announced?

When a Corporate Action is announced, HSBC will send a notification to all customers holding the stock. If it is a Voluntary Corporate Action it will include the deadline, by which time HSBC needs the customer's instruction.

The letters will include details of the stock, your current holding, the ratio that the company is applying to the action, the date when the stock or cash is due to be paid and details of the stock resulting form the Corporate Action.

What are my options when a voluntary Corporate Action is announced and what do they mean?

Rights issue

The options are:

- take up all or part of the nil-paid rights. The shareholder pays the subscription cost and receives the shares
- sell some or all of the nil-paid rights trade as a separate stock for a limited period
- lapse the nil-paid rights (make no election). This may mean a payment to the shareholder of lapsed rights proceeds
- sell some of the nil-paid rights to raise enough cash to buy the remainder of rights (known as a tail swallow)

Open offer

The options are:

- similar to a rights issue but without the rights trading and no lapsed proceeds paid

Tender offer

The options are:

- tender (sell) the shares and receive cash for them
- lapse the offer and continue to hold the shares.

Takeover

The options for this will be different on each takeover and are set by the company making the offer.

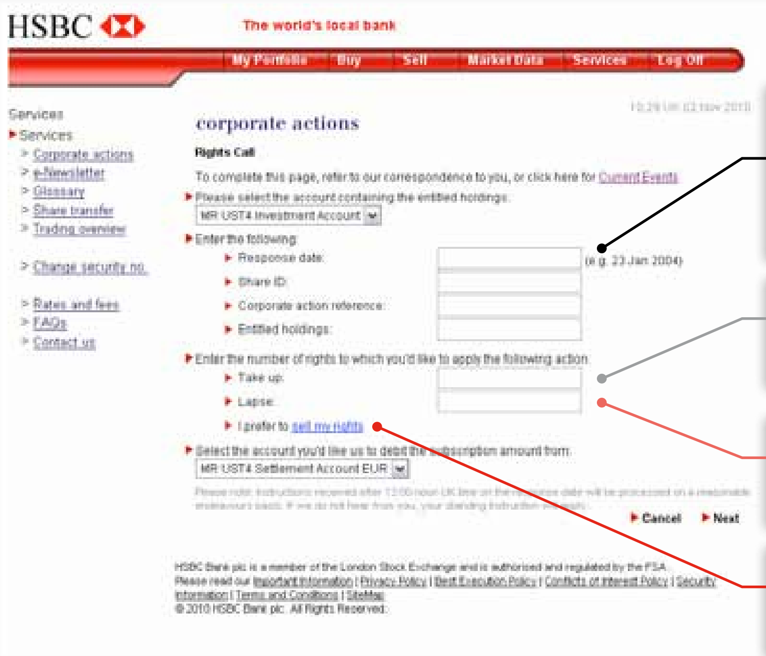
Example:

Option 1 – take stock

Option 2 – take cash

Option 3 – take mix and match, where shareholders will receive a mixture of cash and stock

Rights issues screen



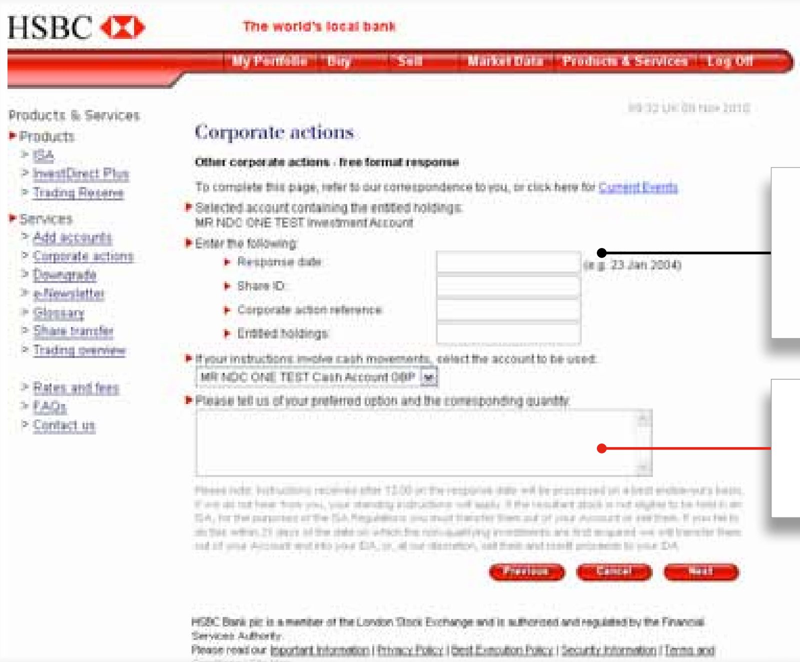
The last date that an election can be made. This information will be provided in your Election Response letter

Take up the rights and buy new shares

Lapse the rights and receive lapse rights proceeds

Sell the rights on the market

Takeover and Tender offers



The last date that an election can be made – The information to be input here will be found on the letter issued asking for your response

The options will vary from issue to issue, please refer to the issue specific letter

FAQ's

I have received a stock called "nil paid rights" what are they?

These are the rights to subscribe to additional shares in the company. They are called nil paid as no payment is required for them. The payment is required if they are subscribed to.

Can I trade my nil paid rights?

In the UK nil paid rights trade for ten working days from the ex date of the issue.

They can be bought and sold as any other stock.

What is an ex date?

This is the date that you must be holding the stock in order to receive the entitlement. After this date trading does not include the entitlement unless this agreed between the people doing the trade.

If I elect for an offer on a takeover can I still sell my holding?

In the UK any sales done after an election are sold as assented trades. The assented part means that you agreed to that offer.

If I have a trade and there is a sub-division or consolidation before my trade settles, what happens?

The trade will automatically be transformed into the new shares and no action is required by the person doing the trade.

Glossary

Allotment Letter
Document sent out by the company's registrars to shareholders on the register, at the record date of a rights issue. It shows entitlement and cash amount due on call date received on certificated stocks

Assented Shares
Relating to a takeover, these are shares that have been lodged at the registrars after acceptance of the takeover has been given. These shares can be sold in assented form but cannot be delivered. The proceeds of the sale will actually be those of the outcome of the Corporate Action

Authorised Share Capital
The total number of shares that shareholders have, authorised by the Board of Directors. This may be different from the Issued Share Capital. Shares authorised but not yet issued may be used when a company has a bonus issue

Bonus Issue
This is an issue of fully-paid, new shares from a company's reserve. These are free of payment to the existing shareholders, in proportion to the existing holdings at a specified date

Certificated Stock
Stock represented in the form of a paper certificate

Cum Dividend
Term used to indicate that shares are being transferred with (cum) the right to receive the dividend

Cum Rights
Rights attached to a share purchase

Demerger
An issue of shares free of payment to existing shareholders, similar to a Bonus Issue. Entitlements received are shares to be quoted separately from the parent company

Dividend
Allocation in the form of cash of a portion of company profits to a shareholder, on a pro rata basis

Election
Events that take place but require the shareholder to make an investment decision

Ex Date

A cut-off date designated to identify trades which are entitled to the Issue. Purchases up to this date will qualify, as will any sales traded after this specific date

Ex Dividend
Term used to indicate that shares are being transferred without (ex) the right to receive the next dividend.

Ex Dividend Date
The date on or after which ex dividend shares are assumed to be transferred

Fully Paid Rights
Once a call payment has been made during a rights issue, the shareholder then holds fully paid rights rather than nil paid rights. These are then turned into ordinary shares

ISIN
International Securities Identification Number. Used as a stock identifier and to trade the stock on the exchange

Issued Share Capital
The total value of share capital that has been issued by the company. Note that this may be different to the Authorised Share Capital

Lapsed rights proceeds
Paid by some UK companies to shareholders who lapsed their rights. This is based on the company selling the rights on the open market at the end of trading

Mandatory Corporate Action
A corporate action that does not require a decision on the part of the investor

Merger
When two or more companies combine capital and operate their business as one company

Name Change
Where a company changes its name but not its share structure. On occasions the ISIN and sedol may change

Nil Paid Rights
The rights given by the company to all shareholders based on the ratio of the event

Non-renounceable
Ownership cannot be transferred to another beneficiary and entitlements are not tradable

Ordinary Shares
Shares in a company which are entitled to the balance of profits and assets after all prior charges. Also known as Equity Shares or Common Stock

Pari Passu
Ranking in all respects, equal to existing shares

Ratio
Proportion of shares to be allocated from an Issue, based on the original share holding on ex-date

Reasonable Endeavours
The term used when HSBC receives an instruction that it cannot guarantee to execute because of deadlines, or factors beyond the bank's control

Registrar
A company charged with the responsibility of keeping a record of the owners of corporation's stock and preventing the issue of more than the authorised amount

Rights Issue
Offering of ordinary shares to investors who currently hold shares, which entitle them to purchase shares at a discount

Schemes of Arrangement
When other stocks, cash or a combination of the two, replace a security

Scrip / Optional Dividend
A scrip or optional dividend is where a company gives its shareholders the opportunity to elect to receive new shares instead of cash dividend on all. This is processed by HSBC when a standing instruction is set up.

Section 980 Notice on Takeovers

Legal notice issued in pursuance with the Companies Act, declaring the bidding company is exercising its right to repurchase all remaining shares. The notice lasts for six weeks from issue, whereupon the shares will be repurchased

Section 983 Notice on Takeovers
Legal notices explaining to the shareholders that they have the right to require the offering company to purchase their shares at the offer price. After the expiry of this notice shareholders lose the right to tender. The shares will remain static until the offering company sees fit to issue a 980 notice. There is no requirement for this to happen

SEDOL
Stock Exchange Daily Official List, used as a stock identifier and to trade the stock on the exchange

SHARE Offer
Right to apply for new shares by existing shareholders, in proportion to their existing holding at a discounted price

Subscription/ Pay Date
This is the last date by which shareholders must pay the funds to the registrar to participate in the action

Subscription Price
The amount to be paid if the take up option is selected

Trade Date
The date a trade was dealt

Voluntary Corporate Action
A Corporate Action that requires a decision on the part of the investor

Withholding Tax (WHT)
A tax levied by local tax authorities on the income earned by non-residents on their foreign investments

hsbc.co.uk

Issued by HSBC Bank plc
Customer Information, PO Box 757, Hemel Hempstead, Hertfordshire HP2 4SS.