

Equities Annex with guidance notes

ANNEX 1, PART 2

Supplemental terms and conditions applicable in respect of equities

This Annex constitutes an Annex to the PSA/ISMA Global Master Repurchase Agreement dated 1995 between and (the "**Agreement**")

1. **Scope**

1.1 The parties have agreed that the Transactions to which the Agreement applies may include Transactions in respect of which the Purchased Securities or Margin Securities consist of or include equities and the terms and conditions of this Part of this Annex shall apply to such Transactions.

2. **Interpretation**

2.1 For the purposes of this Annex and the Agreement:

- (a) **"equities"** and **"equity securities"** include shares or stock in the share capital of a corporation, whether ordinary shares or preference shares or other kinds of shares or stock;
- (b) **"Equivalent Margin Securities"** shall mean, in relation to Margin Securities which are equities and which are partly paid or have been converted, subdivided, consolidated, redeemed, made the subject of a takeover, capitalisation issue, rights issue or event similar to any of the foregoing, the following:
 - (i) in the case of conversion, subdivision or consolidation, securities equivalent to the securities into which the Margin Securities have been converted, subdivided or consolidated provided that, if appropriate, notice has been given in accordance with paragraph 3.5(ii) of this Part of this Annex;
 - (ii) in the case of redemption, a sum of money equivalent to the proceeds of the redemption;
 - (iii) in the case of takeover, a sum of money or securities equivalent to the consideration or alternative consideration of which the party which transferred the relevant Margin Securities has given notice to the other party in accordance with paragraph 3.5(ii) of this Part of this Annex;
 - (iv) in the case of a call on partly paid securities, securities equivalent to the paid-up securities provided that the party which transferred the relevant Margin Securities shall have paid to the other party a sum of money equal to the sum due in respect of the call;
 - (v) in the case of a capitalisation issue, securities equivalent to the Margin Securities together with the securities allotted by way of bonus thereon;

- (vi) in the case of a rights issue, securities equivalent to the Margin Securities together with the securities allotted thereon provided that the party which transferred the relevant Margin Securities has given notice to the other party in accordance with paragraph 3.5(ii) of this Part of this Annex and has paid to the other party all and any sums due in respect thereof;
 - (vii) in the event that income in the form of securities, or a certificate which may at a future date be exchanged for securities or an entitlement to acquire securities is distributed, securities equivalent to the Margin Securities together with securities or a certificate or an entitlement equivalent to those allotted provided that notice has been given in accordance with paragraph 3.5(ii) of this Part of this Annex;
 - (viii) in the case of any event similar to any of the foregoing, securities equivalent to the Margin Securities together with or replaced by a sum of money or securities or other property equivalent to that received in respect of such Margin Securities resulting from such event;
- (c) **"Equivalent Securities"** shall mean, in relation to Purchased Securities which are equities and which are partly paid or have been converted, subdivided, consolidated, redeemed, made the subject of a takeover, capitalisation issue, rights issue or event similar to any of the foregoing, the following:
- (i) in the case of conversion, subdivision or consolidation, securities equivalent to the securities into which the Purchased Securities have been converted, subdivided or consolidated provided that, if appropriate, notice has been given in accordance with paragraph 3.5(ii) of this Part of this Annex;
 - (ii) in the case of redemption, a sum of money equivalent to the proceeds of the redemption;
 - (iii) in the case of takeover, a sum of money or securities equivalent to the consideration or alternative consideration of which the Seller has given notice to the Buyer in accordance with paragraph 3.5(ii) of this Part of this Annex;
 - (iv) in the case of a call on partly paid securities, securities equivalent to the paid-up securities provided that the Seller shall have paid to the Buyer a sum of money equal to the sum due in respect of the call;
 - (v) in the case of a capitalisation issue, securities equivalent to the Purchased Securities together with the securities allotted by way of bonus thereon;
 - (vi) in the case of a rights issue, securities equivalent to the Purchased Securities together with the securities allotted thereon provided that the Seller has given notice to the Buyer to take up in accordance with paragraph 3.5(ii) of this Part of this Annex and has paid to the Buyer all and any sums due in respect thereof;
 - (vii) in the event that income in the form of securities, or a certificate which may at a future date be exchanged for securities or an entitlement to acquire securities is distributed, securities equivalent to the Purchased

Securities together with securities or a certificate or an entitlement equivalent to those allotted provided that notice has been given in accordance with paragraph 3.5(ii) of this Part of this Annex;

- (viii) in the case of any event similar to any of the foregoing, securities equivalent to the Purchased Securities together with or replaced by a sum of money or securities or other property equivalent to that received in respect of such Purchased Securities resulting from such event;
- (d) for the avoidance of doubt, "**Income**" does not include any distribution included within the meaning of the term Equivalent Securities or Equivalent Margin Securities.

3. **Amendments**

- 3.1 In relation to Transactions to which this Annex applies, the Agreement shall be construed as if it had been amended and supplemented as set out in paragraphs 3.2 to 3.9 of this Part of this Annex.
- 3.2 The title to the Agreement and Paragraph 1(a) of the Agreement shall be construed as if the references in them to "equities" had been deleted.
- 3.3 Subject as otherwise provided in this Annex or as otherwise agreed between the parties, where the Income paid or distributed by the issuer of Purchased Securities or Margin Securities is not in the form of money but is in the form of other property, the obligation of a party under Paragraph 5 of the Agreement to pay to the other party an amount equal to the amount paid by the issuer shall be construed as an obligation to transfer property equivalent to that distributed by the issuer.
- 3.4 The existing Paragraph 5 of the Agreement shall be replaced by the following:

"5. Income Payments

- (a) Unless otherwise agreed:
 - (i) where the Term of a particular Transaction extends over an Income Payment Date in respect of any Securities subject to that Transaction which are not equities, Buyer shall on the date such Income is paid by the issuer transfer to or credit to the account of Seller an amount equal to (and in the same currency as) the amount paid by the issuer;
 - (ii) where Margin Securities which are not equities are transferred from one party ("the first party") to the other party ("the second party") and an Income Payment Date in respect of such Securities occurs before Equivalent Margin Securities are transferred by the second party to the first party, the second party shall on the date such Income is paid by the issuer transfer to or credit to the account of the first party an amount equal to (and in the same currency as) the amount paid by the issuer;

and for the avoidance of doubt references in this sub-paragraph to the amount of any Income paid by the issuer of any Securities shall be to an amount paid without any withholding or deduction for or on account of taxes or duties notwithstanding that a payment of such Income made in

certain circumstances may be subject to such a withholding or deduction.

- (b)
 - (i) Unless otherwise agreed, where the Purchased Securities the subject of a Transaction consist of or include equities in respect of which an Income Payment Date would, but for this provision, occur during the Term of such Transaction, Seller shall seek to effect a substitution of such equities in accordance with paragraph 8(a) before the Notice Date referred to in sub-paragraph (b)(iii), but if such a substitution has not been effected by that date then Termination of such Transaction shall, provided that Seller has notified Buyer of such Termination in accordance with sub-paragraph (b)(iii), occur on, and, accordingly, the Repurchase Date of such Transaction shall fall on, the Business Day immediately preceding such Income Payment Date.
 - (ii) Unless otherwise agreed and except to the extent that Equivalent Margin Securities in respect of the relevant Margin Securities have already been transferred, where one party (the "transferor") has transferred Margin Securities which are equities to the other (the "transferee") then, on the Business Day preceding the next Income Payment Date in respect of such Margin Securities, the transferee shall transfer to the transferor Equivalent Margin Securities in respect of such Margin Securities in exchange for new Margin Securities as if such transfers were made pursuant to a request under paragraph 8(d) to which the transferee had agreed, Provided that (aa) the transferor has given notice to the transferee in accordance with sub-paragraph (b)(iii) of the application of this sub-paragraph (b)(ii) and (bb) the transferor has provided reasonable details to the transferee of the Margin Securities in question, the relevant Income Payment Date and the new Margin Securities to be exchanged for such Equivalent Margin Securities and the transferee has indicated to the transferor that such new Margin Securities are acceptable to it.
 - (iii) Any notice given pursuant to sub-paragraphs (b)(i) or (b)(ii) above shall not be valid unless given so as to be effective, at the latest, one hour before the close of business on the last Business Day (the "**Notice Date**") on which the recipient would customarily be required to initiate settlement of the securities to be transferred by it pursuant to such notice in order for settlement to take place on the Business Day immediately preceding the relevant Income Payment Date.
 - (iv) Nothing in this sub-paragraph (b) shall prejudice any entitlement of either party to terminate a Transaction in any other manner permitted by the Agreement.
- (c) Unless otherwise agreed between the parties, where (notwithstanding, and without prejudice to, sub-paragraph (b) above) Equivalent Securities in respect of Purchased Securities which are equities or, as the case may be, Equivalent Margin Securities in respect of Margin Securities which are equities have not been transferred by Buyer to Seller or the

transferee to the transferor prior to an Income Payment Date in respect of such Securities, sub-paragraph (a) above shall not apply in respect of such Securities, but instead Buyer shall or, as the case may be, the transferee shall, on the date Income is paid by the issuer of those Securities, transfer to or credit to the account of Seller or, as the case may be, the transferor:

- (i) an amount equal to (and in the same currency as) so much of such Income attributable to such Securities as is (if it is the holder of such Securities on such Income Payment Date) or would have been (if it had been the holder of such Securities on such Income Payment Date) paid in cash by the issuer to the holder; and
- (ii) an amount equal to such amount, if any, in respect of tax or tax benefit as Buyer or the transferee is (if it is the holder of such Securities on such Income Payment Date) or would have been (if it had been the holder of such Securities on such Income Payment Date) entitled to claim or recover in cash from the issuer's jurisdiction in respect of such Income payment;

Provided that, unless otherwise agreed between the parties, if Buyer or, as the case may be, the transferee has failed to make reasonable efforts to transfer the relevant Equivalent Securities or Equivalent Margin Securities prior to such Income Payment Date in circumstances where the Proviso to sub-paragraph (b)(i) above or, as the case may be, sub-paragraph (b)(ii) has been satisfied, then, instead of transferring or crediting the amount referred to in sub-paragraphs (i) and (ii) of this sub-paragraph (c), Buyer or, as the case may be, the transferee shall indemnify Seller or, as the case may be, the transferor in respect of any cost, loss or damage (excluding, for the avoidance of doubt, any consequential loss or damage) suffered by such person which it would not have suffered had the relevant Equivalent Securities or Equivalent Margin Securities been transferred prior to such Income Payment Date.

- (d) Where Buyer or, as the case may be, the transferee is required by law to make any transfer or credit pursuant to sub-paragraph (c) above subject to withholding or deduction of taxes or duties, and as a result would, but for this sub-paragraph, be required to pay additional amounts under paragraph 6(b) of the Agreement, unless otherwise agreed between the parties, it shall only be obliged to pay such additional amounts to the extent that it could, in the relevant circumstances, have avoided, satisfied or off-set the relevant obligation to withhold or deduct (or to account for the tax withheld or deducted) by utilising any available tax credit in respect of the relevant Securities (or transactions relating to them)."

3.5 In relation to Purchased Securities, or Margin Securities which are equities (and in respect of which Equivalent Securities or, as the case may be, Equivalent Margin Securities have not been transferred) Buyer, in the case of Purchased Securities, or the transferee of such Securities, in the case of Margin Securities, shall notify the other party (as soon as practicable but in any event within two Business Days after the day on which

a holder of such Securities would in the normal course have received such notice from the issuer) of any notice issued by the issuer of such Securities to the holders of such Securities relating to any proposed conversion, subdivision, consolidation, takeover, pre-emption, option or other similar right or event affecting such Securities or of any Income payment declared in respect of such Securities. Whether or not such notice is received from the first party, the other party may:

- (i) where the relevant Securities are Purchased Securities, cause the Transaction to be terminated in accordance with paragraphs 3(d), (e) and (f) of the Agreement as if the Transaction were an on demand Transaction or, where the relevant Securities are Margin Securities, request that Equivalent Margin Securities be transferred in respect of such Securities to paragraph 8(d) of the Agreement; and/or (as appropriate)
- (ii) within a reasonable time before the latest time for the exercise of the right or option give written notice to the first party that on redelivery of Equivalent Securities or Equivalent Margin Securities, as the case may be, it wishes to receive Equivalent Securities or Equivalent Margin Securities in such form as will arise if the right is exercised or, in the case of a right which may be exercised in more than one manner, is exercised as is specified in such written notice.

- 3.6 Where any voting rights fall to be exercised in relation to any Purchased Securities or Margin Securities which are equities and in respect of which Equivalent Securities or, as the case may be, Equivalent Margin Securities have not been transferred, Buyer, in the case of Purchased Securities, or the transferee, in the case of Margin Securities, shall use its best endeavours to arrange for voting rights of that kind to be exercised in relation to the relevant number of securities of that kind in accordance with the instructions of the other party provided that it holds such Securities and the other party shall have notified Buyer or the transferee, as the case may be, of its instructions in writing no later than seven Business Days prior to the date upon which such votes are exercisable or as otherwise agreed between the parties. For the avoidance of doubt the parties agree that subject as hereinbefore provided any voting rights attaching to the relevant Purchased Securities or Margin Securities shall be exercisable by the persons in whose name they are registered or in the case of such securities in bearer form, the persons by or on behalf of whom they are held, and not necessarily by the Buyer or Seller (as the case may be).
- 3.7 Seller shall promptly pay and account for any transfer or similar duties or taxes chargeable in connection with the transfer of Purchased Securities which are equities and any Equivalent Securities in respect thereof and shall reimburse to Buyer the amount of any liability incurred by it as a result of Seller's failure to do so.
- 3.8 Where Margin Securities which are equities are transferred by one party to the other, the transferor (the first party) shall promptly pay and account for any transfer or similar duties or taxes chargeable in connection with such transfer as well as in connection with any subsequent transfer by the transferee (the second party) of Equivalent Margin Securities in respect thereof to the first party and shall reimburse to the second party the amount of any liability incurred by the second party as a result of the first party's failure to do so.
- 3.9 In relation to Transactions to which this Annex applies and unless otherwise agreed, where any Purchased Securities, Equivalent Securities, Margin Securities or Equivalent Margin Securities are transferred through a settlement system which automatically

generates a payment or delivery, or obligation to pay or deliver, against the transfer of such Securities, then:

- (i) such automatically generated payment, delivery or obligation shall be treated as a payment or delivery by the transferee to the transferor, and except to the extent that it is applied to discharge an obligation of the transferee to effect a payment or delivery, such payment or delivery, or obligation to pay or deliver, shall be deemed to be a Margin Transfer made by the transferee; and
- (ii) unless the parties shall have agreed otherwise, the party receiving such Margin Transfer shall cause to be made to the other party for value the same day either, where such Margin Transfer is a payment, an irrevocable payment in the amount of such Margin Transfer or, where such Margin Transfer is a delivery, an irrevocable delivery of Securities (or other property, as the case may be) equivalent thereto

GUIDANCE NOTES FOR USE WITH THE EQUITY ANNEX TO THE PSA/ISMA GLOBAL MASTER REPURCHASE AGREEMENT (NOVEMBER 1995 VERSION)

These guidance notes:

- are designed to provide users of the Equity Annex with information on its content;
- do not form part of the Equity Annex or the GMRA; and
- summarize certain, but not all, of the provisions of the Equity Annex.

1. Introduction

The text of the GMRA was produced primarily with debt securities, and particularly government debt securities, in mind. Its use with other securities often necessitates additional provisions. This is the case with equities. Hence the specific exclusion of equities from the GMRA.

The Equity Annex contains additional provisions for inclusion where either the Purchased Securities or Margin Securities are equities. **The Equity Annex is designed to document Transactions which involve transfers of cash against transfers of “general collateral” which include equities or transfers of equities as Margin Securities. Users of the Equity Annex should, however, always satisfy themselves that these provisions are adequate and appropriate in the context of the particular transactions they propose to enter into and the particular securities which they propose to use.**

The provisions of the Equity Annex contemplate:

- additional events which may affect equity securities during the life of a transaction;
- the payment of income on securities otherwise than in cash;
- a methodology for dealing with the tax issues relating to manufactured dividends which may arise in respect of equities;
- voting rights;
- transfer taxes;
- arrangements that may apply to settlements of equities.

2. Documentation Structure

The Equity Annex is structured as an annex to the GMRA. It is written as a Part 2 to Annex 1. Users should check that they do not have an existing Part 2, and if they do, they should adjust the Part number of the Annex as appropriate.

3. Equities and Equivalent Securities

Paragraph 2 of the Equity Annex contains three important definitions, namely, of the terms “equities”, “Equivalent Margin Securities” and “Equivalent Securities”.

Users of the Equity Annex should ensure that the types of equity securities which they propose to deal with fall within the definition of equities.

The definitions of Equivalent Securities and Equivalent Margin Securities anticipate the possibility of corporate events and other similar events affecting the equities involved. Examples are conversions, takeovers and rights issues. These definitions are based on the corresponding definitions contained in the standard securities lending documentation issued by the International Securities Lenders Association (ISLA).

Many corporate or other events effect some change to the securities concerned (eg. a conversion). In many cases the securities will have been substituted before the corporate or other event occurs, but if they have not been then the question that arises is what equivalent securities should be

returned. These definitions answer that question. They also address the situation where the event involves a choice being made or a payment being made.

4. **Taxation**

Paragraph 3.4 of the Equity Annex substitutes a new and expanded paragraph 5 of the GMRA, designed particularly to deal with the position in relation to payments of Income if a repo of equities spans an Income Payment Date or an Income Payment Date arises whilst equities have been transferred as Margin Securities.

Non Equities

The new and expanded paragraph 5 deals with payments of Income in a special manner described below. However, new sub-paragraph 5(a) is identical to the existing paragraph 5 of GMRA except for the introduction of the words “which are not equities” in each of sub-paragraphs (i) and (ii). The reason for including this sub-paragraph in the Equity Annex is that it will not necessarily be the case, where this Annex is used, that all the securities that are involved are equities needing to be dealt with under special rules. For example, there could be a case where the securities that are repoed are equities but Margin Securities are debt securities, which may include net paying debt securities in respect of which the parties have agreed that Annex VIII (Net Paying Securities) shall apply. In such a case paragraph 5(a) will have the effect of making it clear that, in the absence of any agreement to the contrary, any manufactured payments falling to be made in respect of the debt securities are to be made on a gross basis as is the normal rule under the GMRA.

Equities

The general rule established by sub-paragraph 5(b) is that unless otherwise agreed, equity securities will be recalled prior to a dividend date, ideally by way of an agreed substitution.

What is payable if an Income Payment occurs? The background to the inclusion of this general rule can best be understood by first considering sub-paragraph 5(c). The underlying approach of the Equity Annex is that if an Income Payment Date occurs while securities are out on repo, the cash provider in an equity repo (the Buyer) should not normally have to pay over more than the amount receivable by him in respect of a payment of Income on the equities. In particular, in normal circumstances, the Buyer should not have to pay over a full gross amount to the Seller if in fact the amount receivable by the Buyer is net of withholding tax.

Accordingly, the drafting approach of sub-paragraph 5(c) is as follows. It stipulates as the normal rule that, where equities are out on repo over an Income Payment Date, the amount of the manufactured payment payable by the Buyer is the amount of cash received by him (net of any withholding tax deducted at source), plus any amount which the Buyer is entitled to recover from the source jurisdiction of the equities in respect of tax. If the Buyer has disposed of the equities at the relevant Income Payment Date, the paragraph 5 payment is calculated by reference to the amount that would have been obtained if the Buyer had retained them.

No amount is payable under paragraph 5(c) in respect of irrecoverable withholding tax suffered in the jurisdiction of issue, nor by reference to any tax credit benefit which the Buyer might be accorded by the authorities in its own jurisdiction.

The preferred solution: Given that background, a Seller is likely to prefer to take back securities over an Income Payment Date, for example where the amount which the Seller itself would receive if it held the equities at the Income Payment Date would exceed the amount which the Buyer would have to hand over to the Seller under the normal rule in paragraph 5(c) as outlined above.

Accordingly, paragraph 5(b) provides that, unless otherwise agreed, a Seller will seek to effect a substitution of equities which would otherwise still be out on repo over an Income Payment Date. As with any substitution, this will require the Buyer's agreement to it. If no substitution has been effected, the relevant Transaction will terminate before the Income Payment Date. It is recognised that a Seller should be responsible for monitoring the dividend payment dates relating to equities which he has transferred by way of repo. Accordingly, such a termination before an Income

Payment Date will only occur if the Seller has given the Buyer notice under paragraph 5(b)(iii) of the impending Income Payment Date and requested the retransfer of the equities.

If the Seller has given such a notice to the Buyer, but the Buyer has failed to make reasonable attempts to transfer equivalent equities to the Seller before the Income Payment Date, the proviso to paragraph 5(c) requires the Buyer to indemnify the Seller against loss caused by the failure to transfer.

Margin Securities: Equivalent provisions to those discussed above apply in the case of Margin Securities which are equities. In particular, paragraph 5(b)(ii) will provide for the transfer of Equivalent Margin Securities to the transferor if the transferor has given a notice to the transferee under paragraph 5(b)(iii) and provided the transferee with appropriate additional information. In such circumstances, in addition, the transferee will need to agree to the substitution request.

Inter-relationship with normal gross-up clause: Paragraph 5(d) is designed to govern the relationship between the normal gross-up clause in the GMRA (Clause 6(b)) and the position as described above. The effect of paragraph 5(d) is as follows. The Buyer will not, if it has to account for any tax when making a payment in respect of equities pursuant to paragraph 5(c), normally be required to pay an additional amount by way of gross-up under paragraph 6(b) if some withholding is required on making the payment to the Seller. This is consistent with the view that generally, the Buyer's position should, as cash provider, be protected under an agreement to repo equities. An exception is made in a circumstance where, in relation to the Income payment on the equities in question, the Buyer can obtain a tax credit which means that the withholding or deduction does not amount to a true cost for the Buyer. In such a circumstance, the gross-up clause is reinstated.

Contrary Agreement: It should be noted that these provisions of the Equity Annex are expressly subject to any contrary agreement the parties may reach as to the matters in question.

Country Specific Requirements: Market participants will be aware that, given recent changes to the UK's stamp duty and stamp duty reserve tax rules, repo transactions in equities issued by companies incorporated in the United Kingdom have recently become potentially less expensive. The equity repo annex does not attempt to deal specifically with the position of UK equities. Participants who are contemplating using the equity repo annex for transactions in UK equities will, as with any transaction, need to check the position carefully in the specific context of any particular proposed transaction. Amongst the questions to be considered will be the detail of the stamp duty and stamp duty reserve tax position and also whether, in any particular case, the Buyer may be in a position to claim any amount from the UK authorities that could be within sub-paragraph (c)(ii), for example under the terms of an applicable tax treaty.

5. **Voting Rights**

Where voting rights fall to be exercised in respect of equity securities which have been repoed or used as margin, paragraph 3.6 requires the transferee to use its best endeavours to arrange for voting rights of that kind to be exercised in accordance with the wishes of the transferor, although this obligation applies only to the extent that the transferee actually holds securities of the relevant kind. This provision also makes clear that the voting rights themselves belong to whoever is the actual holder of the securities.

6. **Transfer Taxes**

Paragraphs 3.7 and 3.8 allocate responsibility for transfer taxes between the parties.

7. **Settlement Systems**

Where the settlement system through which securities are being transferred creates a payment against transfer of the relevant securities, paragraph 3.9 provides a mechanism for return of the cash to the extent that it is not appropriate for it to be retained by the recipient.

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