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Corporate Actions

Special Report

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Editor's Letter

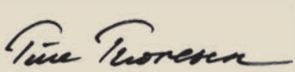
The Time Is Right

When you ask a software vendor who their main competitor is, the typical answer is: In-house builds. But in the corporate actions space, this is starting to change. Firms are operating with tighter resources, and the IT expertise needed to build a successful corporate actions platform is not necessarily readily available. Instead, vendors are now saying they are being asked to leverage the parts that have already been built and adopt a plug-and-play approach to finish off the project.

The continued focus on improving these platforms is largely driven by pressure to mitigate risk and increase automation. Corporate actions announcements are becoming more complex—even in comparison with a few years ago. The risk of making mistakes has increased, and at the same time the risk-tolerance level has dropped to zero. It perhaps does not come as a surprise that many consider this to be the right time to invest in improvements and get themselves organized.

In this *Corporate Actions Special Report*, which includes comments from industry experts and a news review, we hope to provide readers with an insight into the latest developments in the corporate actions space, providing more information on what projects to prioritize and which industry initiatives it is worth keeping a close eye on.

Yours sincerely,



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News Review

Users: CA Data Improvement Needed in Asia

HONG KONG – User firms are increasingly moving to taking corporate actions data direct from exchanges in the Asia-Pacific, following dissatisfaction with some custodians and data vendors, according to speakers at the Asia-Pacific Financial Information Conference in Hong Kong in November.

Even when taking corporate action feeds from vendors, one attendee said firms have to pay close attention to exchanges, particularly in China, because some corporate actions can go unreported in vendor products. Firms have to ensure they have internal staff to monitor exchange websites and verify information, he explained.

Panelists said corporate actions information in China is a problem as there is no single vendor providing sufficient coverage. "Often you have to go to the exchanges yourself," said Hong Kong-based Robin Leung, managing director, head of global information technology, at BOC International.

Sydney-based Kees Middendorp, senior consultant, corporate actions, at SmartStream Technologies, said there seems to be dissatisfaction with some services from custodians and data vendors in the Asia-Pacific, and few offer information in an easily integrated standardized format.

The full version of this story appeared in *Inside Reference Data*, December 2009.

Tine Thoresen

Corporate Actions Space Lacks Risk-Remuneration Balance

HONG KONG – Market participants are not remunerated for the risks associated with corporate actions processing, and the main focus remains on reducing risk rather than improving remuneration, according to panelists at the Swift-organized Sibos conference held in Hong Kong in September.

Without standardization at the issuer-level, corporate actions is one of the more risk-prone areas in the industry, and the levels of remuneration do not match the risks taken, said New York-based Craig Dudsak, managing director, global transaction services – global custody at Citi.

Brussels-based Edwin De Pauw, director, single platform and market harmonization at Euroclear, said it is not clear to what extent there is a risk-remuneration balance. "I would focus on reducing the risk rather than seeking compensation for it," he said.

While the audience agreed there is no remuneration for the risks taken, there was no consensus on whether corporate actions is a profit centre—one of the myths in this space, said Washington, DC-based Max Mansur, product and market manager, securities, at Swift.

The full version of this story appeared in *Inside Reference Data*, October 2009.

Carla Mangado

Corporate Actions Event Committee Pays Off for BNY Mellon

LONDON – The creation of a corporate actions committee that gathers information on complex events has helped Bank of New York Mellon (BNY Mellon) speed up the process of handling announcements that require additional attention, something that has become more necessary since the start of the financial crisis.

According to Dublin-based Barry Adams, assistant vice-president, corporate actions, at BNY Mellon, who delivered a presentation on the firm's corporate actions services at *Inside Reference Data*'s European Financial Information Summit, the changing market conditions have resulted in more interaction with clients and an increase in requests for information. "Corporate actions has progressed up [in] importance, and I think everybody, even at the top, is interested in what we do."

In response to the turbulent market conditions, BNY Mellon has set up a corporate actions group of senior representatives from different data management areas within the firm. The teams represented include corporate actions, pricing, static data and securities master file.

When an event comes out of the left field, the set group goes through what happened and identifies what action needs to be taken, he explained. This approach has already resulted in benefits. "It is not just that we can react more quickly, but we have all the right people available [to deal with these events]," said Adams.

The full version of this story appeared in *Inside Reference Data*, October 2009.

Tine Thoresen

XBRL to Enhance Data Jobs

The take-up and expansion of data tagging standard XBRL is set to change data analysts' jobs, according to speakers at the XBRL US National Conference in New York in November. Firms typically manually verify corporate actions information, checking against original sources to validate all the data is accurate. Panelists said they would like to see XBRL eliminate hours spent on manual processing.

Providing information in XBRL also helps reduce risk. Panelists said the expansion of XBRL has benefitted from the recession and increased regulatory focus on access to information. As XBRL means data is provided in a structured format, it is seen to improve access to data.

Six Telekurs Supplies VDF Data in XML

Six Telekurs has made its Valordata Feed available in XML format, a launch made possible through the VDF2XML Converter. In addition to tools such as DOC Converter, DOC Print and DOC Browser, VDF2XML Converter offers an option to process the international reference and corporate events data in Valordata Feed. Previously, the company supplied the VDF data in Edifact.

Corporate Actions: The New Requirements

Corporate actions is an area firms continue to invest in. *Inside Reference Data* gathers leading industry professionals to discuss the projects prioritized

What type of corporate actions projects do you see firms working on at the moment?

Christian Ransby, corporate actions manager, GTS Custody Services, SEB Merchant Banking: On a global scope, there are more and more business analysis projects—several banks changing corporate actions organizational structures—systems reviews, vendor reviews, risk mitigation projects and so on. Larger projects around the topic of in-house corporate actions system production are also occurring at a few major firms.

Risk mitigation projects are always popular within corporate actions, which is logical as the market and event types are constantly changing. However, there seems to be substantial investments placed in the before-mentioned categories at the moment.

Martijn Groot, director of market strategy, Asset Control: Given Asset Control's broad client base of custodians, investment managers, banks and hedge funds, we see projects driven by different needs. On one hand, we see custodians implementing infrastructural projects in order to streamline operations, reduce costs and create a more scalable data infrastructure on which to offer additional services.

On the other hand, we also see more departmental work at different organizations involving corporate actions data, such as improving data quality before corporate actions processing takes place, or integrating issuer data, security master data or (historical) pricing data as a result of corporate actions.

Laura Pollard, executive vice-president, Fidelity ActionsXchange: As the nature of corporate actions continues to increase in complexity, firms will demand a broader range of corporate actions information, technology and analysis to help them effectively monitor their investments, manage risk and streamline the associated asset servicing needs. In achieving these objectives, firms are frequently looking within their own organization to better understand how they can consolidate and streamline these processes at an enterprise level, and often look to partner with providers who can deliver robust corporate action solutions both in terms of technology and content expertise.

This more detailed understanding of how corporate actions information is used across an enterprise combined with the right level of partnership often represents a way firms can effectively organize and accelerate change initiatives that result in measureable improvements in performance from a cost and risk perspective.

Barry Adams, vice-president, corporate actions, BNY Mellon Fund Services (Ireland): Corporate actions are a dynamic element of the global securities industry and are constantly changing due to the business needs of the issuing firms. It is an exciting time to be involved in this industry, since these challenges continue to arise on a daily basis and demand a high degree of expertise and attention.

Industry participants have always been focused on receiving and distributing timely, cleansed and enriched data. More recently, addressing the standardization and completeness of the data has become part of the broader goal. In addition, the evolution of UCITS regulations in Europe and the continuing growth of ETF funds globally mean investors and portfolio managers are investing in an ever-broader range of instruments. Accordingly, corporate actions teams are having to anticipate and adapt to new requirements.

To successfully support clients' corporate actions needs today, providers must adopt a multi-tiered approach to projects, and moreover, must be prepared to implement such projects concurrently. Within BNY Mellon we have both long- and short-term corporate actions projects running simultaneously around operational efficiencies, industry initiatives and technology platforms.

Gerard Bermingham, vice-president of business strategy for the Americas, Information Mosaic: The shift in priorities for banks post-crisis is shining a spotlight on the post-trade environment and the need to increase transaction transparency, providing an instant view of where a customer's investment is and what is happening to it at any point in time. Corporate action automation is key here, and we are seeing a reinvigorated interest in the entire end-to-

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end process as well as the additional add-on services. Asset managers, for instance, are looking at automating their election process to reduce decision risk. Updating custodians by fax or through a custodian portal obviously results in a less attractive deadline date by which decisions must be made. This is adversely affecting the front-office portfolio managers, as anyone relying on manual elections must make their decisions sooner than their competitors – allowing less time for research and also the risk of significant market changes occurring in the period between decisions being submitted and the final deadline.

Laura Fuller, data consultant, SIX Telekurs UK: For as long as I have been working in data, conferences and publications have encouraged and discussed the automation of corporate actions processing and the reduction in risk. However, this has not yet become a global reality, as we all know. Corporate actions projects are the first to be shelved when the going gets a little tough, other areas quickly become a much higher priority. The reasons for this are well documented and I won't go into them here, but lately it seems the worm is turning! As a data vendor, the main large projects that clients are coming to us with are ISO 15022 corporate actions implementations. The take-up of ISO 15022 is increasing, in my opinion, as the industry becomes more comfortable with the reliability of the format and it is seen that strenuous efforts are being made to ensure the standard is moving towards becoming a 'proper' standard. Market practice guidelines have been put in place, and the potential of ISO 15022 for assisting in automation projects is being recognized. The Securities Market Practice Group and the Market Data Providers User Group have proved to be effective, and well-established, and serve as forums for discussion of issues as well as promoting the evolution of the standard. Increased spending in the corporate actions area is forecast for 2010 in all the articles I have read.

Another trend among clients in the area of corporate actions at the moment is an increase in focus on the corporate actions data they already receive. Several clients have mentioned projects aimed at cleaning up their internal data and re-evaluating the data vendors they use. This is definitely a worthwhile undertaking. We have worked with clients and identified areas where they are not making the best use of the data they receive, as well as areas where they are taking data they do not need. This results in efficiency improvements and reduction in processing costs.

Malene McMahon, senior business manager, Americas, Swift: Globalization and market practice initiatives are dominating the agendas of many of our clients. The Securities Market Practice Group has spent the past few years refining and clarifying market practice guidelines and now these market practices are being codified by many of the practitioners in the market to improve stright-through processing rates and lower the cost of processing in corporate actions.

The increased complexity of corporate actions messages is often mentioned as a key challenge for the corporate actions industry. What can firms do to mitigate the risk of processing complex corporate actions?

Ransby: This *is* a key challenge in the industry. To be competitive, participants must constantly enhance system capabilities and clearly define terms of corporate actions events to a more aggregated level, towards the final recipient of the information.

Complexity is necessary to maintain high corporate actions processing quality. System build-up should be improved locally to strengthen straight-through processing and provide full adjustability/flexibility to any new market scenario and the processing thereof. This will be especially true in coming years, when the market expects a number of new event types and increased volumes.

Groot: Improving data quality is crucial to mitigating the risk of processing complex corporate actions. Multi-sourcing is one way firms can improve quality, by taking in custodian feeds as well as integrating third-party corporate actions data feeds. For example, a recent addition to Asset Control's coverage the ISO 15022 feed of Fidelity's ActionsXchange. Multi-sourcing helps to improve quality, minimize information loss and time-to-market delays, and ensure business continuity. Also, quality of data determines the feasibility of automation.

Without good-quality corporate actions data to begin with, there is no point in automating the processing downstream. In this case, it would be better to use a manual process since automation presupposes good-quality data.

Pollard: As a result of their manually-intensive nature, complex corporate actions continue to represent one of the most significant areas of operational risk. While industry efforts to standardize corporate action messaging should remain a critical imperative, these efforts represent only a partial solution to a sound and comprehensive risk mitigation process. To further mitigate risk, firms need to access the technology and content expertise. This enables the organization to control, interpret, communicate and appropriately action the specific corporate event across multiple businesses and related asset servicing and trading groups as well as other interested parties. We see little information that would lead us to believe the nature of corporate action events being

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structured by issuing firms will decrease in the level of complexity. This complexity is not limited to the event itself, but by asset class, presentation restrictions and a myriad of other factors that go beyond pure data management and are at the core of the need to access highly specialized corporate action knowledge and expertise.

Adams: BNY Mellon continues to see tremendous growth in the number of issuers engaging in capital raising or debt restructuring. These types of events are typically a voluntary offering, with both a large number of securities identifiers and options open to the holders of the instruments. In any environment this is difficult to manage from a risk perspective, but when you factor in a number of previously unseen variations of events (Compensatory Open Offers in the UK, for instance) and evolving tax laws (Section 302 for NRAs in the US) then the entire risk mitigation equation becomes complex.

Being able to call on high-quality, experienced staff to analyze the data has also never been more important. The practical knowledge that experienced staff have built up is invaluable when it comes to effective risk mitigation. In addition, systems and strong support from your data suppliers are key elements, while rigorous operational controls are also vital. Saying that, there are still so many elements within complex corporate actions that are considered non-standard, and accordingly, we continue to put a strong emphasis on education and training to ensure knowledge is shared across the corporate actions teams globally.

Bermingham: We often find the errors associated with this increased complexity are down to historical internal practices that cannot scale and a lack of existing best-practice workflow. Organizations need to take a step back and look at the overall process, from announcement through to final entitlement calculation and allocation, and see where they can remove duplication of work and opportunities for misinterpretation. The successful automation of the end-to-end corporate actions process is really about re-engineering internal processes to create optimal workflow first, then you can automate and reap the rewards.

Fuller: Risk of course is a hot topic as regulators continue to assess the lessons of the financial downturn and the role data played in this. Firms must have robust systems, fed by reliable and accurate data feeds in order that complex events are recognized as such. Vital also are experienced staff who can review these events and oversee the action to be taken. People will always be involved in the corporate actions process, automation is not possible for all events. This is particularly important at the moment, as issuers are creating new corporate action types, which do not fit the existing standard descriptions.

With increased complexity, the value of having two datafeeds for corporate actions can be seen. Dual sourcing might not exactly halve the risk, but it will certainly mitigate it to some extent and appease the regulators. Budgets will dictate this, of course, and a strong business case.

McMahon: Market practice plays a role here as well, as more complex events are brought under the market practice umbrella. Market infrastructures (such as DTCC) are also publishing templates for more complex events to provide guidelines to market practitioners on how best to use existing (ISO 15022) and new (ISO 20022) message standards for the various event types. Of course, some events will always remain too complex to fit within the guidelines of published standards—but the market practice groups continue to strive toward automating as much as possible while leaving some room in their processing for the occasional 'text' that needs to be locally interpreted and processed.

The implementation of corporate actions messaging standard ISO 20022 is due this year. What do you expect the take-up to be?

Ransby: This one is tough. It seems some participants are waiting for others to be first-movers before implementing. Still, preparations are ongoing practically everywhere. The XBRL/UNIFI scheme is welcomed, and this is a useful step towards more efficient and standardized messaging. The ability to convert the format into physical messaging is also welcomed.

Groot: The take-up will be gradual and will differ from market to market. Users that have direct benefit in moving to ISO 20022 will adopt sooner rather than later, especially when it comes to using the additional elements such as voting options covered in ISO 20022. In ISO 15022, meeting announcements with information on the different voting options are often represented as text, whereas in ISO 20022, this is mapped out so that voting options can be processed more easily to power proxy voting services, for example.

Pollard: The ISO 20022, as indicated above, is an extremely important step in furthering a greater level of risk mitigation across the industry. We fully support this initiative and are an active and engaged participant in this process. It is uncertain at this time what the expected take-up will be, but we are fully committed to support our customers and the industry in furthering this important initiative, which will lead to further standardization and should provide for greater access to announcement information and improved market transparency.

Virtual Roundtable

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Adams: ISO 20022 is important to BNY Mellon, and there is certainly an opportunity to increase levels of automation across the corporate action lifecycle. With any enhancement of this scope and nature, it is bound to take a while, especially given the plan to run ISO 20022 and ISO 15022 in parallel for a period of time.

Karla McKenna, director of global transaction services, Citi, and chair, ISO TC68, the technical committee for financial services that maintains and manages the ISO 20022 standard: The ISO 20022 messages are available for general use to anyone. In November this year, the messages will also be available on the Swift network. At this point, we encouraging firms to migrate to 20022.

We anticipate the demand will increase when the DTCC goes live with 20022 messages in the US market, and when Euroclear goes live with the Single Platform program in Europe. We expect events such as these to drive adoption of the new messaging standard.

Bermingham: This is an interesting topic at the moment and we have been directly involved in the development of this standard with Swift. Swift and the DTCC are promoting ISO 20022 as a complete replacement of the DTCC legacy message formats, which will have a positive impact on the US market in particular and will no doubt result in a large take-up by DTCC clients. Firms in Europe and Asia-Pacific, while they require their application vendors to support the format, seem to have less of an appetite to fully move from ISO 15022 to ISO 20022. These firms, together with market practice groups, have worked tirelessly on standardizing ISO 15022 messages and are just now beginning to see the benefits of this, both from a quality and automation perspective. Understandably, the appetite to start afresh and work on new message formats is low. It will take Swift, DTCC and all of us involved in ISO 20022 to highlight the numerous business benefits of the new standard, and then we should see this situation improve.

Fuller: The final documentation relating to the ISO 20022 standard has recently been published, and the messages will only become live in November, so it is rather premature to comment on likely levels of take-up. Swift is working closely with the large market infrastructure providers, such as the DTCC, Euroclear and Clearstream, as they move towards implementation of ISO 20022. This should cause a trickle down effect. However, those that have implemented ISO 15022, and spent major amounts of

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time, effort and money on this standard, will understandably be reluctant to move in the near future. ISO 20022 has been reverse engineered from ISO 15022, and Swift plans to produce translation tools to help with the move between standards.

From a data vendor's viewpoint, we have to follow the lead of our clients. Of course vendors will provide data in the ISO 20022 standard as a matter of course (although none have yet started work on it as far as I am aware). But it is likely, in the short to medium term at least, that ISO 15022 will continue to play a large part in data delivery. Smaller clients, and those who have no business case to upgrade their corporate actions systems, are highly unlikely to move to ISO 20022. Even if Swift does decide on a forced migration for members, there are many firms who are not Swift members but do use ISO 15022 for corporate actions data delivery. They will have no real motivation to move to ISO 20022 if they have no internal plans to upgrade their systems.

XML is undoubtedly a modern format and has many documented benefits, it makes sense to move to the newer technology, but this will only happen with an overall business case for change. Consequently ISO 20022 is likely to make slow progress. However, over time, this will improve if it follows the adoption rates of ISO 15022 and proves to be a usable standard.

McMahon: Given DTCC's re-engineering of its corporate actions platform and its initiative to adopt ISO 20022 for corporate actions beginning in early 2011, we are anticipating a healthy take-up in the US community starting in 2011. Of course, shifting from the well-used ISO 15022 standard will still take some time, but we are confident the benefits of ISO 20022 (common business model and common data dictionary) will, over time, help to drive adoption both in the US and other parts of the globe. Initiatives in Europe and Asia are already starting to gain some traction, driven by the local exchanges and central securities depositories.

Data consumers are eager to receive corporate actions data at top speed. What can be considered as timely delivery in the corporate actions space, and what can vendors do to help clients meet demand?

Ransby: Build market infrastructure with regard to announcements in accordance with international recommendations. A single point of vendor [contact] would be preferable. Also provide data feed directly to participant systems in a standardized format. The problem is not the lack of products, but the lack of global standardization.

Groot: From a corporate actions processing perspective, there are timelines to consider in servicing the owners of the securities and responding to choice events. Meeting these timelines also sometimes depends on the completeness and different iterations of the information coming from issuers, such as in the case of tender offers. It is important that a data management solution provides an exception handling process with different severity levels that can also be a function of "time left to respond" deadlines. In addition, by functioning as the internal data hub, the solution should ensure the different stakeholders receive the same data at the same time, and that users can keep track of what sources have contributed to what event.

Pollard: The most timely corporate actions information comes directly from the issuer. This is the entity that structures the event, initiates board and any necessary regulatory approval, files, where appropriate, with the listing exchange, co-ordinates shareholder communications with their respective transfer agent and might initially announce the action in the broader market. Issues, exchanges and issuer transfer agents are all sources that are engaged during the initial planning and execution of a corporate action and remain primary sources for the timeliest information pertaining to an event. But it is not just enough to get this information at top speed at the risk of being incorrect. Given the focus on appropriate risk management and controls, often accompanied by a firm's fiduciary obligations, you need to ensure you are accessing the most timely announcement information while also establishing the fact you have exercised appropriate due diligence as to its accuracy.

Adams: BNY Mellon's approach is to take a comprehensive, holistic view of corporate actions that are available to our suppliers and sub-custodian network. If a BNY Mellon client is also a valuation customer, we can offer an enhanced view of the corporate action that looks at factors such as the impact on the company's share price, adjustment of clients' positions, accurate reflection of cost basis and any related tax implications.

However, as is so often the case in the corporate action space, itemizing what is required and addressing those requirements is not always straightforward and available in a standardized and automated fashion. It should be a goal for all consolidators of corporate actions data to work together towards tighter time frames from when the data first becomes available from the issuer. A significant factor that continues to delay the validation of corporate actions data is the existence of diverse messaging standards, which must be mapped and scrubbed before that data can be fed to either a system, client or management report. Both issuers and vendors have a part to play in addressing this, albeit over a longer term, by actively supporting initiatives that seek to improve end-to-end automation and by highlighting the topic in any discussions with regulators.

Bermingham: The way we are all now consuming data in the internet age means there is an expectation all data is available in real time. This creates a challenge to data providers to get out accurate corporate action data in as close to real time as possible. This challenge continues through to the end beneficiary, where they too expect to receive accurate corporate action data immediately. Receiving the data one or two days after the corporate action is announced is just too late. Customers don't want to have to search for corporate action data, they need it to be sent to them, they want to be told about it and find all they need online. They can then test decision scenarios, look at the impact on their investment and submit their final decision all through a single interface. Similarly, we are seeing an increased need from business users within organizations to have corporate actions information and levels of risk associated with these actions delivered in real time.

Fuller: The clients of data vendors all agree timeliness is a major factor when selecting a vendor, and this issue is taken seriously by vendors. The aim of each vendor is to add a corporate action to its system on the announcement date, as far as this is possible. Data vendors in most cases provide information before corporate actions come through from custodians. SIX Telekurs collects data on worldwide securities from more than 850 different sources. As far as possible, automated feeds are used for data collection, but in addition to this, data analysts in 12 different countries manually collect, input, verify and analyze corporate action data. This is vital, especially in countries where feeds are not available and the best and most official sources are financial newspapers and the issuers themselves.

SIX Telekurs provides corporate actions data three times a day, corresponding to close of business in the major timezones, as well as one traditional end-of-day consolidated delivery. It is beginning to become more common for clients to request delivery three times a day rather than one consolidated feed. This seems to meet the current needs, together with the ability to make *ad hoc* requests from the SIX Telekurs system to obtain securities data at any time during the day for up to 500 securities.

However, there have been requests for more frequent feeds of corporate action data, and timeliness has become a more pressing issue with some clients. I am sure in the future real-time corporate action delivery will be an option, although this would require highly efficient and up-to-date back-office systems. Clients might be looking for more timely data, but I doubt they would be able to process, say, data feeds from vendors every 15 minutes. This would increase the risks of processing data incorrectly. SIX Telekurs has developed 15 minute feeds of basic data, but it is difficult to find a client who is willing to test this feed, systems are just not ready for such frequent processing.

McMahon: Of course, the ultimate goal in the world of timely delivery is always real time. Once a corporate action is decided by an issuing party, its investors should receive this information in a timely manner to make the decisions that will meet their individual investment needs. Vendors play an important role here as they are often a key player in the chain of conveyance to get information from issuers to investors. The more quickly their applications can process the information and pass it downstream, the better.

In 2009, different market participants have been working together to promote data tagging standard XBRL for corporate actions announcements. To what extent would the adoption of XBRL help the industry overcome challenges associated with corporate actions processing?

Ransby: For XBRL to be the "standard" format in a given market, infrastructure must be looked at. I would like to see more structured discussions, also in our smaller markets, between stakeholders.

Data tagging in XBRL is interesting, and could possibly help the industry "overcome some challenges." However, as mentioned before (again and again) this calls for participants' infrastructure to be feasible.

Groot: The adoption of XBRL by issuers would help in clearing up ambiguities early on in the supply chain of corporate actions information. We still expect a human element to be involved in the downstream processing, as adoption rates, pace and local regulatory environments will differ widely from market to market. This development needs careful analysis, but in general, it is a very positive step toward ensuring data completeness, accuracy and overall quality are addressed closer to the source of the information.

Barry Adams, BNY Mellon Fund Services (Ireland)

Pollard: Data tagging will provide a greater level of consistency and event transparency of raw data. However, the adoption of XBRL alone does not tell the complete story and will not solve all the challenges associated with corporate action processing, nor will it ensure the accuracy or completeness of information necessary to fully support the event. In an environment presenting increasing complexity, it is enrichment, analysis and interpretation that converts raw data into intelligence firms can use to gain a competitive advantage and reduce risks. Content expertise and guidance will always be necessary, particularly when dealing with such complex information, to provide interpretation and support to ensure the most accurate corporate action information is provided to our clients. A multi-sourced solution that combines technology and analysis will always add value and provide the

Karla McKenna, Citi

most effective and compliant solution.

Adams: XBRL appears to be the obvious next step in the improvement of end-to-end corporate actions processing. It focuses on an element of the process—notification from issuers—where it has historically been difficult to make many enhancements. The real key to XBRL's success will be its adoption across a broad range of the global markets. XBRL has proven beneficial in the context of accounting and financial reporting standards, so corporate actions are the next logical area of focus. However, it is likely to take a similar path to the industry's adoption of the Swift standards around corporate actions. Ultimately it is important that as an industry we adopt a realistic outlook, while collectively continuing to work towards the ultimate goal of standardized, efficient end-to-end corporate actions processing.

McKenna: XBRL for corporate actions will mean different things to different people. It will take the latency out of the process. It will allow the intermediaries and the investors in the chain after the issuers to choose not to scrub the data. If we know the data has been tagged, we can choose not to take that information from several sources. It also benefits investors in terms of timing, as the use of XBRL will mean investors will have more time to decide what to do with the corporate action.

In addition, the use of XBRL will mean the tagged elements will have history and metadata attached.

Bermingham: The adoption of XBRL will reduce the risks and errors associated with misinterpreting corporate action information. XBRL data tagging will ensure the issuer provides all the necessary data in a single electronic message, eliminating the need for corporate action teams to trawl through pages of legalese to try to figure out what the corporate action is and then what the terms, key dates are. This will reduce corporate actions errors but it is not the complete solution—we are still faced with a system where different countries have different rules for how corporate actions are described, leading to potential opportunities for misinterpretation. XBRL data tagging is an ambitious initiative and will require the backing and support of the issuers to make it work. This will be difficult on a voluntary basis as the benefits for issuers are hard to quantify. However, if you look at the benefits to the financial services sector as a whole there is a definite case for the industry to drive this initiative forward.

Fuller: The aim is to promote XBRL for use by the issuers of corporate actions, so that the principal data elements contained in their documentation can be automatically processed. Issuer interest in standardisation has traditionally been limited. They have not seen the benefits to their investors of simplifying downstream interpretation of the corporate actions. Involvement of the issuers in corporate action automation is a positive step. This has been under discussion at various conferences and industry groups for at least 10 years, so firm progress is welcome. Automation at the start of the corporate action process would certainly reduce the risk of manual and interpretation errors as the event hits intermediaries in the process. Corporate action prospectuses can be more than 150 pages long, rising to over 500 in some cases, with varying clarity of language, so interpretation is not easy. Not only the initial event document, but also updates to the event in paper format increase the possibilities for data miscommunication in many different proprietary formats, as well as ISO 15022. For data vendors, data feeds from sources are always preferable to documents that have to be manually processed. Corporate actions for data vendors is still a manual process involving teams of data editors checking any feeds that are available as well as manually adding corporate actions that are received in paper format. If XBRL-tagged documents could be processed, this would increase the capacity of a data vendor to add events and get them to clients. If XBRL also resulted in the issuers taking the responsibility for allocating the ISO 15022 Official Corporate Action Reference to the event, this would further reduce corporate actions risk. However, I think this would be a step too far, at least in the short term.

XBRL is certainly being promoted in the US, with the collaboration of the DTCC, Swift and XBRL US. The aim is to push existing ISO standards for corporate actions and integrate the benefits of XBRL electronic data tagging technology. A lot of good work has been done in this area, but the spread of XBRL to the rest of the world will be a challenge. Acceptance and success in one region, however, will bring more attention to the benefits of XBRL.

McMahon: XBRL can play a pivotal role in helping to get tagged information from issuers to investors. XBRL is a tagging technology that will allow issuers (or their agents) to tag the pertinent information in a corporate actions document and append an XML instance (an automatable representation of the key data) onto the document. In this way, the key data fields are easily transformed into automated messages and the corporate action is passed down through the transaction chain with as little human intervention and interpretation as possible.

By capturing the information at the source (the issuers), in an automated way (through the tagging of information based on the XBRL corporate actions taxonomy), information on events can flow downstream through various intermediaries and agents without the need for extensive (and expensive) data scrubbing.

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Coming to Terms with

When it comes to corporate actions, it is fair to say that as far as data is concerned, anything goes. What constitutes an event can be at the discretion of the security's issuing company. There will never be an end to issuers' level of creativity in inventing terms, conditions, and various options when it comes to tender offers, voting options, and different forms of capital distribution to the owners. This often results in the use of a bewildering variety of terms to describe an event, making automation very challenging.

However, standards have been evolving, and more portions of the corporate actions content universe have been modeled out and put into a structured format. As a result, this lends corporate actions to increased automated processing.

New standards

Two key developments in standards are worth highlighting: XBRL and ISO 20022. XBRL is a promising improvement, especially because it addresses data completeness and the structuring of information closer to the source. In ISO 15022, one could resort to free-format "narrative" in some cases. ISO 20022 provides broader coverage and an increased number of standard terms (to represent different voting options, for example) to structure the potential myriad pieces of corporate actions information.

The cost of errors and delays

There are numerous examples of possible repercussions caused by mistakes or delays in processing corporate actions. Manual gathering of corporate actions data is error-prone and can impede timely processing of the action against a firm's own positions and/or its customer portfolios. Specific examples include:

- Improvements are needed in monitoring the responses and workflows in voluntary corporate actions. The inability to quickly and effectively communicate with clients on their choices or the impact on their portfolios can have major cost implications.
- For investment funds, the compliance implications of corporate actions must be taken into account. Opting for a stock versus a cash dividend, for example, can increase exposure for a specific company and possibly an entire sector.
- Portfolio alignment decisions should be based on correct quantities or prices; otherwise, compliance errors from incorrect exposure can occur. Trading errors can also stem from an incorrect understanding of quantities already in the portfolio.

The power of multi-sourcing

From the perspective of data quality, multi-sourcing can play an important role in guarding against missing or delayed data, AssetControl

Corporate Actions

as well as increasing business continuity. Combining information from different custodians, and being able to compare and contrast it with commercially sourced data from an aggregator, can help improve the overall quality of the information.

Business rules that screen the incoming data as a function of market and event type, and a workflow process that tracks the lifecycle of voluntary events such as processing prioritization based on pending deadlines, can further improve confidence in the data before it impacts any decisions downstream.

Such a standard, consolidated repository with scrubbed corporate actions data can cater to different stakeholders with standardized information, smoothing the speed bumps in corporate actions processing. Without a streamlined process, the classic silo approach prevails, in which different departments in a firm independently source, scrub and store information from the market. This can lead to a string of differing perspectives with associated costs and operational risks. Indeed, corporate actions processing automation presupposes quality levels and a shared understanding of data. Without these necessary quality levels, a costly and non-scalable manual process would be the most feasible option, though certainly not the optimal one.

Streamlining and standardizing the information flow of corporate actions has additional benefits that go beyond core corporate actions processing. Since corporate events impact the terms and conditions of securities, anyone with an interest in security master or pricing data, for example, will benefit from increased availability of accurate corporate actions data. Applications of this data can range from updates to issuer legal structure, and the modification of bond terms and conditions to ensure more accurate dividend yield forecasts on baskets of equities.

In summary, although there remains a lot of work to be done to improve the processing of corporate actions, the development of standards can help fulfill the preconditions for automated sourcing and timely distribution to all stakeholders of a firm. A data management platform that facilitates this sourcing and allows users to monitor and cross-compare events through standard business rules and efficient workflows, while incorporating the effects of corporate actions on other financial data, can further help firms make the most of the still often thorny matter of corporate actions.

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Sponsor's Statement

Corporate Actions:

The groundwork has been laid for the greatest change in the history of corporate actions processing. Now is the time for issuers to embrace the new way to announce corporate actions.

No other action touches the entire financial supply chain like corporate actions. From corporations that announce a dividend to the pensioners that receive them, corporate actions have a multiplier effect on the financial services industry. When processed correctly, corporate actions can enhance the value of the corporation by strengthening connection between issuer and investor. When processed incorrectly, the cost of correction can exceed the cost of the issue many times over.

Worldwide, there are close to 1 million announced corporate actions every year, with approximately $1 billion lost to error and inefficiency during the processing of these actions. That is because the lack of a standardized way to generate corporate actions 'data' immediately at the time of an issuer/offeror's announcement effectively delays the communication of this information to investors, burdens their intermediaries, and maximizes the possibility for erroneous or inaccurate communication of the necessary details. In a global interconnected world, the problem is especially acute as remedies are hindered due to the constraints of time zones, language barriers and jurisdictional differences.

Despite the large costs associated with errors in corporate actions processing, up to now the process by which corporate actions are filed and processed has been largely manual and lacking a global standard for communication. This is surprising. We live and work in an age of business process automation. Straight-through processing (STP) initiatives have taken hold in other business processes and operations, but corporate actions processing seems almost consigned to a life in the shadows of the arcane, lurking in a system of paper-based regulatory filings and newspaper-to-custodian notifications, often in proprietary formats.

Which begs the question: Why is it the automation of the various corporate action processes are so slow to take hold?

Newton answered the question eloquently with his first law of motion: every body persists in its state of being at rest or of moving uniformly straight forward. Inertia is a powerful force in both physics and finance. Corporate issuers have built a process of corporate actions disclosure based on decades of regulation written for a paper-based economy. To the corporate issuer, automating a corporate action is not core to its business. The body in motion wishes to stay in motion.

Overcoming Inertia

Until recently inertia also gripped the intermediaries and the custodians on which the responsibility rests to ensure corporate actions are correctly processed. Though the cost of manual interpretation, re-keying and exception processing is great, the intermediaries and custodians have been unwilling or unable to redirect the existing body in motion. Instead, many individual firms generated efficiencies by implementing internal corporate action automation initiatives. While these programs might have saved some internal headaches, they did little to alleviate the global pain felt by the industry as corporate actions still failed from one link in the supply chain to the next.

With the global financial retrenchment came renewed pressure on financial firms to cut operational costs. Already forced to cut global workforces, and dealing with an escalating volume of corporate actions to process, intermediaries and custodians realize now is the time to implement a universal system of corporate actions automation and eliminate inefficiencies once and for all.

Responding to the collective cry for change, Swift, the Depository Trust and Clearing Corporation and XBRL US launched the Issuer to Investor: Corporate Actions initiative last year. The initiative will harmonize the XBRL language—which corporations already use for regulatory reporting—with the ISO 20022-based standard for corporate actions intermediaries use to communicate with investors. Through one simplified, global language, the initiative will help automate corporate actions throughout the financial supply chain.

To get to this point, we need the support from the issuers of corporate actions. A simple, global standard for corporate actions will ensure the intent and content of the originating offer is clear to the investor, without fear of misinterpretation due to manual manipulation. It will also ease the burden of compliance faced by multinational corporations, and blend seamlessly with their existing XBRL-based filing. Investors will benefit from one global standard by making more timely decisions with confidence the information is accurate as the data comes directly from the issuing source.

This effort would save financial institutions and their clients time and money, both of which can be better invested in other endeavors, proving the Law of Conservation of Energy: energy can neither be created nor destroyed, it can only be transformed from one state to another. Let's transfer the energy being spent on manually processing corporate actions to more useful pursuits.

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Q&A

Exposure Awareness

Inside Reference Data speaks to Aite Group's senior analyst Fritz McCormick about the current state of the corporate actions market

Fritz McCormick, Aite Group

Who is driving the corporate actions agenda at the moment in your opinion?

Corporate actions operations professionals are driving the agenda, working with custodians and clients, the standards community, data vendors and technology providers. As a result of the credit crisis and renewed attention to risk issues, these folks are getting pressured to improve the process.

How has the corporate actions space changed in the last year?

Risk management generally has become a true business driver and I think this has an effect on the corporate actions market. There is a greater realization the firm is exposed to significant market and reputational risk as a result of problems in this area.

What are the main corporate actions challenges firms are facing?

Obtaining consistent and timely notifications and compiling them into a usable composite, followed closely by challenges with the entitlement process and communications with firms around voluntary corporate actions.

To what extent do you think standardization is the only way forward to overcome challenges in this space?

Standards have an important role to play in corporate actions and there is evidence of standards use, especially among corporate actions data vendors. This is positive, but suggesting it is the only way forward neglects other aspects necessary to address the challenges in this market, such as the creation of automated workflow and event processing capabilities and enhanced communication techniques between interested parties.

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