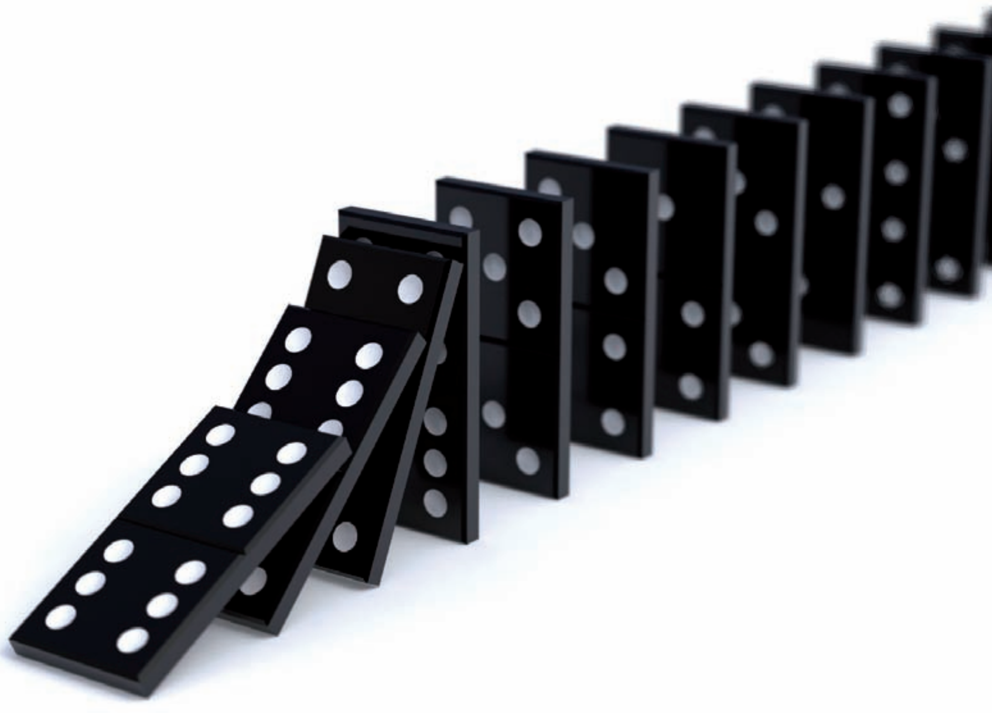
Inside Reference Data

April 2009 www.irdonline.com

Corporate Actions

Special Report



Sponsored by DTCC The Depository Trust & Clearing Corporation

Fidelity ActionsXchange Intelligence in Action

SIX Telekurs

Thomson Reuters

Editor's Letter

XBRL Marks the Spot

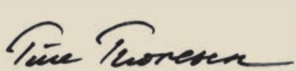
Ever since I entered the reference data space, the main topic of discussion in the corporate actions market has been getting the issuers involved in standardizing announcements at the source level. A range of different initiatives has been suggested—everything from raising awareness in the issuer community to forcing issuers to implement new software—but the success of these has been limited.

Yet, now it could seem like the right foundation has been laid for the industry to finally make a progress. The growing international use of data tagging standard XBRL for financial accounts, and the US Securities & Exchange Commission's move to mandate the use of XBRL for company filings means the issuer community will be familiar with this standard. The question is if XBRL could be extended to corporate actions—or more precisely, if regulators would consider mandating the use of XBRL for corporate actions announcements too.

This is at least what industry groups hope will happen. In fact, there is already a working group creating an XBRL taxonomy for corporate actions, and Swift and the Depository Trust & Clearing Corporation are both working with XBRL on the corporate actions initiative. So even though change is not expected overnight, the development is now a lot more encouraging than it was a year back.

Corporate actions and the issuer debate is now, in fact, becoming an important area to follow. And with this special report, which includes comments from industry experts and a news review, we hope to give readers the opportunity to keep on top of the latest developments in the corporate actions space.

Yours sincerely,



Tine Thoresen
Editor, *Inside Reference Data*
Email: tine.thoresen@incisivemedia.com
Tel: +44 (0)20 7004 7470

Contents

FEATURES

NEWS

An incisive*media* publication

Incisive Media
Haymarket House, 28-29 Haymarket
London SW1Y 4RX

News Review

Northern Trust Rolls Out Corp Actions Data Scrubbing Platform with Information Mosaic

LONDON—Global custodian Northern Trust is rolling out a global enterprise-wide corporate actions data scrubbing platform from corporate actions vendor Information Mosaic, with several large implementations to go live later this year, officials tell *Inside Reference Data.*

Northern Trust embarked on the multi-year project in 2007 and went live with the first implementation in Q2 last year. Justin Chapman, global head of process management at Northern Trust in London, says the firm has projects with Information Mosaic working in the area of data scrubbing. "It will be a continuous development throughout the year, as we didn't go for a big bang approach," he says.

The initiative will provide Northern Trust, which already has one centralized corporate actions platform for custody, with a consolidated scrubbing hub with multi-entity functionality across all its business entities. "We looked to bring certain parts of the business on (first), to prove the capabilities of the platform," says Chapman.

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

Tine Thoresen

Swift SR2009 Scale-Back to Have 'Minimum Impact' on Corp Actions

BRUSSELS—Although Swift is scaling down the 2009 annual review to keep messaging standards in line with business changes, the Standards Release 2009 scale-back should have a minimum impact on the corporate actions industry, officials tell *Inside Reference Data*.

Malene McMahon, business manager for Swift's standards division, says the MT Standards Release 2009 "will not include any changes to securities-related messages as per our recent agreement with the community and approval by the board in December."

Yet, the scaling down of Standards Release 2009 only impacts the MT Standards Release—focused on the ISO 15022 standard—and not the ISO 20022 changes, the MX Standards Release 2009. Also, some updates to the proxy voting messages will continue forward as part of the MX Standards Release 2009, she says.

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

Tine Thoresen

JPMorgan Launches Corporate Actions Announcement Capture

BOURNEMOUTH—JPMorgan has gone live with a corporate actions announcement capture platform built in partnership with corporate actions vendor Information Mosaic, officials tell *Inside Reference Data*.

The initiative, which started a year ago in the global custody business, will speed up corporate actions processing, improve straight-through processing and help reduce manual intervention.

David Kane, senior vice-president, securities and operations, JPMorgan Worldwide Securities Services, and head of JPMorgan's technology and operations centre in Bournemouth, where the platform sits, says the firm invests very heavily in technology and corporate actions data to ensure 100% accuracy for clients.

JPMorgan typically takes three to four corporate actions feeds of the same event. The new announcement capture piece has the capacity to compare up to 10 different sources and will highlight any discrepancies.

Kane says JPMorgan clients use the data for critical investment decision-making, so it is vital to avoid any mistakes. To ensure top quality, the firm takes announcements from their network of sub-custodian banks and also vendors, ensuring comparable data is from independent sources.

The new system can then cross-reconcile all the 15-20 data fields in the corporate action announcements.

The full version of this story appeared in *Inside Reference Data*, December 2008.

Tine Thoresen

Misinterpretation and Cost Savings Drive CA Standards

The potential for misinterpretation and cost savings are driving the adoption of corporate actions messaging standards, according to a new report from Aite Group, which examines the challenges and benefits of corporate actions standards.

DTCC Introduces Browser Service for CA Data

The Depository Trust & Clearing Corporation has launched a corporate actions web browser service with real-time access to scrubbed and validated corporate actions information on global securities.

Six Telekurs Expands Coverage

Six Telekurs now covers information on more than 5 million international financial instruments. The increase comes after the acquisition of Fininfo SA and Six AB in the past year and the firm's strategy to achieve exhaustive and reliable data.

Nasdaq OMX Adds Norwegian CA Data

Nasdaq OMX has added Norwegian corporate actions data to its Nordic corporate actions offering.

Virtual Roundtable

The New Age of Corporate Actions

Inside Reference Data gathers leading professionals to discuss how firms can take corporate actions processing one step further and help reduce risk and financial losses

Most firms have invested in software to improve automation, but there is still a need to further reduce the risk associated with event processing. What is the next step? Which part of the corporate actions lifecycle do you expect firms to prioritize in the coming year?

Stephanie Hardaway, business project manager, HSBC Securities Services: Announcement capture and management is the first step in the corporate actions workflow and the first implementation phase that firms tend to introduce automation to. This automation provides firms with scrubbed, accurate announcements which mitigate the risks associated with publishing downstream event information.

Election capture and instruction processing has historically been the area where firms are subject to the greatest risk, it is a natural progression therefore to focus automation attention on this area if you are seeking to reduce risk. Firms will look to automate decision capture and decision handling through either ISO 15022 messages or web-based tools.

For the downstream instructions to counterparties, the key to reducing risk is to ensure instructions captured are handled through automated tools that avoid any manual intervention and the associated risks.

In addition, when a firm considers which part of the lifecycle to automate, it will now take into account the location of where its processes reside. Many firms now have multiple locations performing different parts of the CA lifecycle, and must look at the combined risks of the process and the location.

David Hands, DTCC director, product management, GCA, The Depository Trust & Clearing Corporation: If we break up the corporate action lifecycle into thirds (announcement, election and payment), the order of priority is very apparent. An announcement requiring information from multiple external sources (ie, issuer, exchange, depository or custodian) or an election response requiring communication back-up, the chain is naturally more risky than the resultant payment process.

Looking at this another way, risk increases as the number of outside forces/dependencies increases. Therefore, it is not surprising that the announcement process continues to be the main focus of industry initiatives, and is often the first part of the chain to receive financing for automation. The desire to solve industry-wide issues and an increased understanding of the requirements of corporate action processing has intensified this focus.

Beginning in 1998, the evolution of the ISO standards (7775 to 15022) and the growth of market practice groups has provided the opportunity to bring order to the cluttered process of corporate actions, highlighting the critical importance of getting the announcement details right the first time.

David Hands, director, product management, GCA (Tel:+1 212 855 5894), and **Lori Trezza,** vice-president, product management, asset services (Tel:+1 212 855 4510), The Depository Trust & Clearing Corporation
www.dtcc.com

Amy Harkins, managing director, global corporate events worldwide, the Bank of New York Mellon: Custodians are charged with navigating the waters on behalf of their clients and providing quality, scrubbed data for downstream review by those who make investment decisions. As a result, it is vital to custodians to work toward development of a central repository or warehouse of information, where all parties impacted by the event will see and hear the same thing, in

Virtual Roundtable

Laura Pollard, Executive vice-president, Fidelity ActionsXchange
Tel: +1 877 777 5838
www.actionsexchange.com

consistent terms throughout the lifecycle. The proliferation of software vendors has created many possible corporate actions packages that cover the pre-notification to clients in gathering the data, scrubbing it for integrity up to and including the collection of responses from eligible shareholders. This advance in technology has provided organizations the ability to implement imaging and workflow technology around legacy systems applications.

Laura Pollard, executive vice-president, Fidelity ActionsXchange: We expect firms to focus more closely on the beginning of the corporate actions lifecycle, starting with the quality of their incoming event data and related analytical content. With external factors such as current market conditions resulting in increased event complexity, and internal pressures to reduce costs and handle greater volumes with fewer resources, firms will look to build stronger partnerships with their data providers to deliver increasing value. Firms that successfully partner with providers who understand the complexity of the current markets and extract data that is not only validated, but enhanced, will be better positioned to redirect valuable internal resources and reduce the risk involved in processing their corporate actions information.

Nanda Kumar, product director, SIX Telekurs: As corporate actions continue to increase in volume and complexity, organizations are starting to shift from in-house solutions to third-party corporate actions applications. Despite automation improvements, several factors continue to impede progress: an abundance of free formats, multiple languages, increasing volumes of events and late/incomplete or lost information from issuers to beneficial owners are just some of the risks. Increasing complexity as a result of the growing traction in derivatives investments also places new demands on operational resources—especially in the area of processing corporate actions.

At SIX Telekurs, we've addressed some of these risks through our approach to data. For one, our reference database (that includes corporate actions) is completely encoded, which means even the most complex information is presented in a consistent way. In addition, all our data is linked, which means instruments are linked to issuers, corporate actions, related derivatives, etc. This approach greatly facilitates automated processing of all event data, complex or corporate subscription options

Inside Market Data
Inside Reference Data

Benefit

Why bulk subscribe?

We recognise that there are often several people in a department or company who would benefit from seeing copies of our range of market data publications.

You can make substantial savings off the standard cost of subscribing with our bulk subscriptions solutions.

Every scheme is designed to exactly match your information needs and is the serious choice for the financial professional. Whether you are a large or small company, we have the solution to suit you.

Whenever, wherever and however you need it.

The additional benefits

Designed to help you fulfill the information needs of your company in the most cost-effective way possible. We offer members a wide range of time-saving services and benefits such as:

- The right information to the right people
- Access anywhere
- Hassle-free ordering
- Easy payment options
- Personalised account management

The saving benefits

Offers extensive savings off the standard individual subscription price

The more you order, the greater the saving.

contact today

Contact **Pat Courtney** now for more information or to place your order:
t: +44 (0)20 7484 9929
e: cso@incisivemedia.com
w: incisivemedia.com/cso

incisive*media*
incisivemedia.com

Nanda Kumar
Product director,
SIX Telekurs
Tel: +1 203 353 8100

www.six-telekurs.com

plain vanilla. We believe that increasing adoption of data presented in this way is (or certainly should be) the next logical step for improving automation within the corporate actions workflow.

Brian Filanowski, EMEA business owner, pricing & reference data, Thomson Reuters: Firms can realize significant cost savings and reduced risks by automating event processing. However, process-specific software is only one part of the solution and a more holistic view of front- to back-office workflow is needed. One area that is often overlooked in corporate actions project planning is having a centralized security master database. At the heart of every corporate action must be accurate underlying reference data. Many mid-large firms have function-specific security master databases, all processing separate corporate action feeds specific to their needs. For example, some algorithmic trading functions process only price-affecting corporate actions on a subset of instruments in the firm's total active portfolio, while the portfolio accounting and position-keeping systems are focused on processing capital change events such as splits, rights issues to ensure accurate position data. By focusing on the underlying security reference data, along with processing events that are required to maintain this data, firms will see noticeable improvements in their downstream corporate actions processes, and therefore greater gains in efficiency.

The market has seen a growing uptake of ISO 15022 messaging standards, but many complain adoption rates are still too slow. What can firms do to help push other market participants, such as custodians, to adopt ISO standards?

Hardaway: The first market participant in the corporate actions message chain is the issuer. If the first party within the chain is able to adopt message standards, then this makes it easier for the other downstream participants in the chain to follow, and therefore would encourage additional market participants to take up ISO 15022.

In circumstances where the participant is a client of a global custodian, say a fund manager, then the fund manager can use its relationship with the custodian to leverage the change to ISO 15022.

Global custodians have previously considered charging investment managers a premium for handling non-formatted corporate action instructions, for example, fax instructions, however, in today's market, where global custodians are competing for new clients, this is unlikely to be a favourable strategy.

Remember that pushing to adopt ISO 15022 is a step too far for some participants, but what is perhaps more achievable is the push for market participants to use an automated method of instructing. Some firms may be put off by the yearly maintenance cost when ISO 15022 standards are updated, however this is being tackled, with Swift announcing that all ISO corporate action change requests will be postponed in 2009 and re-reviewed in 2010.

Some market participants have mentioned they would like to see the standards become more flexible, allowing participants to use ISO 15022 when there are regional differences or changes in market practices.

How do you encourage an issuer to adopt a common standard, without the powers of regulation? Perhaps the way is to offer flexibility without a detrimental effect on the standards themselves.

Hands: The current market practice move to refine the ISO 15022 standard will help take the flexibility out of the standard. Over the past few years, SMPG has defined market templates that address data requirements by event/market. Once we agree on the templates and account for the majority of event nuances, you will see a wider adoption of ISO 15022. With uncertainty about ISO 20022 and the co-existence period with ISO 15022, organizations may be cautious, but Swift standards are working to ensure that during the co-existence period, the two standards will be interoperable.

Swift's Staqs (Simulation Testing and Qualification Service) product begins to address the challenge of "strongly encouraging" adherence to market practice. Staqs has the potential to be the benchmarking tool for all ISO users.

Although there is still work to do, we can at least begin to agree on the steps that will bring us closer to adoption of the ISO 20022 model. A co-existence period may buy the necessary time to work towards the future model, but now we must focus collectively on:

1) Completing the definition of event announcement templates for all markets, event types and security types

2) Bringing issuers into the standardized process of communicating electronically

3) Defining process flows for each party in the chain: issuer, depository, exchange, account servicer and account owner from announcement to payment/tax processing.

"As corporate actions continue to increase in volume and complexity, organizations are starting to shift from in-house solutions to third-party corporate actions applications"

Nanda Kumar, SIX Telekurs

Brian Filanowski
EMEA Business Owner, Pricing and Reference Data, Thomson Reuters
Tel: +44 (0)207 542 1185
www.thomsonreuters.com

Harkins: The US market remains predominantly vendor-feed focused, while the European and global markets are sending ISO 15022 formatted messages to custodians. Each player/participant in the process has proprietary messaging and business/operational process requirements that can often use terms or fields differently, making communication among parties confusing and prone to error. Focus needs to be on all players in the life cycle, including issuers, agents, brokers, and investment firms and not just custodians. As a result, corporate actions engines must be capable of accommodating ISO 15022 messages and providing vendor and depository interfaces for both the receipt and instruction of the corporate action information, and be flexible and customizable.

Pollard: Increasing the adoption rate of ISO 15022 is certainly a challenge. Market participants not yet using it may consider bypassing the implementation of this messaging standard completely, choosing instead to wait for ISO 20022 because of its wider scope and XML syntax and planned implementation in 2010. In order to push market participants toward the usage of 15022, the industry needs to make a better case for its value, and position it as a logical and important step toward transitioning to 20022.

Kumar: Globalization and complex market offerings are two factors contributing to the slow adoption rate of ISO 15022. Competitive and regulatory drivers have increased cross-border trading, which in turn has resulted in portfolios that include complex securities for investments and hedging.

As a result, corporate actions are also growing in complexity, often creating challenges when applying fixed standards. And this means market participants—especially custodians—revert to manual processing when the standards don't fit the complex offers and messages.

For standards to succeed and evolve to keep pace with the markets, we believe custodians and clearing houses must push their clients to adopt the standards where appropriate—and where the standards don't fit, be a part of the process and get directly involved with the standards authorities, such as ISO. SIX Telekurs has been an active participant in several standards committees, and we invite other vendors as well as market participants to join us in these efforts. As the market gains momentum in standards adoption, any vendors that haven't stepped up to support them will be forced to do so—or move aside.

Filanowski: No-one will disagree with the fact that streamlining internal message flow across an organization to achieve STP, and improving external upstream and downstream communications across data providers, will reduce risks, lower costs, and improve efficiency. These are all buzzwords used to promote the effort to move to standards. However, in reality it is much easier said than done. One hundred percent up-take of the ISO 15022 messaging standards across the industry is highly unlikely.

Many large firms, major custodians and sub-custodians have some portion of their overall workflow standardized, however, a lot more firms do not. It all comes down to prioritization and funding. Larger firms have the ability to absorb the impact of spending their time and effort on these projects, while smaller firms can't afford to overhaul their infrastructures just to be 'ISO compliant.' One area that can help with the up-take of ISO processing would be for the "official" data sources to publish their data in ISO format. However, with all that's going on in today's environment, firms are more focused on the safety of their core business than implementing messaging standards.

There has been a lot of talk about the growth in class actions due to the economic climate. How do you expect to see the focus on class actions developing over the next year?

Stephanie Hardaway, HSBC Securities Services

Hardaway: Class action information can be hard to come by, middle office and fund managers do not always receive information from custodians as part of the custodians' standard corporate action announcement service. Information can be received from other sources such as direct from the litigator or through website information, however, when dealing with non-US securities, information can be harder to come by.

As the number of class actions grow, class actions processing will receive an increased focus—firms will need to find a way of sourcing class action information, tracking class action claims and recovering the funds due. Ideally, if faced with a large volume of claims firms would decide to invest in services that track the announcement and progress of the class actions, preferably in a standardized format.

Lori Trezza, DTCC vice-president, product management, asset services, The Depository Trust & Clearing Corporation: The ongoing financial crisis caused a dramatic increase in the number of securities class action lawsuits filed in 2008. According to a recent study by Cornerstone Research, investors filed 210 federal securities class actions in 2008, a 19% increase over the 176 cases filed in 2007. Of the cases filed in 2008, almost half—103 of them—involved firms in the financial services sector. The study found more than 30% of the largest firms in the financial services sector faced federal litigation.

"Many large firms, major custodians and sub-custodians have some portion of their overall workflow standardized, however, a lot more firms do not"

Brian Filanowski, Thomson Reuters

Gearing up to handle the potential influx of class actions settlements, the industry has focused on creating standards and processing efficiencies throughout the class actions lifecycle, initially in the area of class action settlement announcements. The DTC has been working closely with representatives from the Bank Depository User Group (BDUG) in identifying all the relevant data elements that should be included in a securities class action announcement. DTC expects to rollout a securities class action announcement service in late 2009.

Subsequent standardization initiatives will focus on adoption of an electronic filing process and data requirements for all securities class actions filings. Standardization reduces the filing cost for filers without creating any additional work for the claims administrators. It ensures the claim is filed right the first time and ensures receipt of settlement monies in a timely manner.

Harkins: As with any broad downturn in the market, the expectation is that there will be an increase in the number of complaints filed in the courts. Whether or not those complaints ultimately become certified as class actions and reach settlement remains to be seen. While there may be a spike in the number of cases filed in a short period, since these cases have long and varied life cycles, the number of cases settled in any period has remained fairly constant. However, clients will no doubt take notice of the losses in their portfolios and inquire more frequently with their service providers to make sure claims are being filed when required.

Pollard: The current economic climate is set to increase the volume and complexity of class actions over the next year. This is a major cause for concern for financial services firms dealing with resource constraints. The sourcing and integration of class actions data is similar to corporate actions and other complementary data. We expect to see firms seek industry experts to help them with their data issues. Firms will look to partner with providers who can deliver robust data solutions that allow them to gain efficiencies, save money, reduce risk and add value to their investment support and decision making.

Kumar: The ongoing credit crisis and financial industry turmoil have fuelled a major surge in securities class action suits. Expectations are that average and median settlement sizes could grow as cases begin to be resolved.

Even against this backdrop, there are many institutional investors that aren't claiming their share of these settlements because they haven't filed under the claim—often because they weren't aware of the action in the first place. So firms are looking harder at this area, either by increasing focus internally or employing third-party agents to do the discovery legwork for them.

We've seen an increase in our referrals to reliable class action data specialists, and we expect this trend to continue for some time.

Filanowski: Class actions are an interesting corporate action. During stock market booms, there is very little attention given to class actions, mainly due to investor satisfaction. In these times, the amount of class action events can be reviewed manually, and the need for feed-based solutions is minimal. However, during market downturns there is a greater amount of class actions by unsatisfied investors. This is especially true in today's climate. The subprime crisis and the global market downturn have seen investors clamouring for accountability and retribution. This means we should see a significant increase in the number of investor-led class actions over the next two years.

Data vendors are seeing growing demand for more timely corporate actions data. What should be considered timely data in the corporate actions market? Is 'real-time' corporate actions data viable?

Hardaway: The time lags that currently occur on CA information dissemination are the result of the number of counterparties in the CA chain and how the information is handled. Firms used skilled teams to digest, interpret and translate information to the next counterparty within the chain.

Firms are dealing with expectations from clients, we have SLAs to meet, and if there is a delay on the receipt of underlying data from registrars, custodians and middle-office providers, then the CA teams are working against the clock.

"The time lags that currently occur on CA information dissemination are the result of the number of counterparties in the CA chain and how the information is handled"

Stephanie Hardaway, HSBC Securities Services

Amy Harkins, the Bank of New York Mellon

Volatile markets increase the need for the timely distribution of data, but in light of the above I am unsure whether real time is possible; however, intra-day information should be.

Hands: "Near-time" is achievable. Getting the information in the hands of the investor in an hour, or less, after (a) a press release is issued, or (b) document is filed through the regulatory channels, or (c) posting onto the issuer's website, seems feasible and certainly preferable to end-of-day files. Until we bring standard electronic communication to the originators of the event, however, the goal will not be achievable. In the US, we are working on expanding the use of XBRL (eXtensible Business Reporting Language) to cover corporate action announcements, thereby providing a tool for issuers to tag key elements found within a document (eg, prospectus). The tagged, ISO 20022-compliant document can be passed through the current dissemination process, but in a form that can be consumed by all market participants, including individual investors, in a seamless manner. We may soon be able to achieve an asset servicing goal of accurate and timely corporate action information from the authoritative source, the issuer.

Harkins: Timely data in the corporate actions market is difficult to define. Bloomberg currently has real-time data, however the players need to be willing to go into Bloomberg to pull the data, rather than having the data pushed out to them. The increase in actions in the current economic environment makes pulling information too inefficient a task. The number of intermediaries involved in pushing data through in a near-real-time environment are too numerous and would require the entire industry to be capable of sending and receiving data in a single format.

Pollard: Ultimately, the most timely corporate action information comes directly from the issuer, who is the first to receive event information from its board of directors. Industry players have attempted for many years to deliver corporate actions information directly from the issuers, but this effort will resolve only part of the issue. The endorsement of XBRL will certainly help in the pursuit of real-time data in the US, but challenges will remain with regard to emerging markets, where data is much less efficient, making true global harmonization a continuing challenge.

Kumar: Even before the current market instability, clients have been looking for information throughout the day—usually in response to increased instrument complexity and rising volumes. Algorithmic trading models are particularly sensitive to timely application of corporate actions, because their models need to react instantly. But on the flip side, increase in demand for "real-time" or even near-real-time corporate actions increases the risk that incorrect data will be processed—which could be just as bad or worse.

As an aggregator of global corporate actions, we know how much effort is required to identify sources, gather the information and scrub it for accuracy and completeness, and as such we can say with certainty that compressing delivery timeframes will come at a cost. As a colleague is fond of saying, "Good, fast or cheap. Pick two."

One way the SIX Telekurs corporate actions service mitigates this conundrum is by virtue of the fact that we offer a notification service. This means we continually update our database once data accuracy can be verified, even when an announced event or action isn't complete. For example, if a company announces a dividend, but not the ex-date or amount per share, we will notify our customers as soon as the announcement is verified. We will then update the notice when the other details are released, which means our customers have been aware of the pending action/event from the earliest possible moment, and won't be surprised by a "new" announcement that only comes across their system at the last moment.

Filanowski: With the rise of algorithmic trading, and the increase in competition among fund administrators and custodians, timeliness of corporate actions has become a top priority. Processing the full gamut of global corporate actions is no easy task. There are thousands of sources, all varying in technologies, ranging from newspapers to automated feeds. All this data needs to be processed, consolidated, checked for accuracy, then distributed to downstream delivery systems. Labelling corporate actions 'real-time' may be a bit of a stretch, considering the amount of processing and data checking involved; "near-time" might be a better description. Over the past two years, Thomson Reuters has invested heavily to improve our corporate action processing infrastructure and delivery capabilities. In December last year, we launched hourly updates on all corporate actions, globally. This has been well-received by the market and we are striving to reduce that even more in the coming year. The key is keeping the balance between timeliness and accuracy, while also providing enough factual information in a message for firms to identify what is real and actionable versus what is just preliminary notification.

Many firms claim there is now a need for more tax specialists in corporate actions teams—one more quality added to the long list of candidate requirements. Where do you find the perfect corporate actions professional these days?

Hardaway: Firms try to hold on to

their CA professionals and appreciate the value these specialists add. Staff therefore can often come at a premium compared to other operations staff. In the current climate, staff are looking for long-term stability and not quick financial gains. Perhaps it is possible for firms to turn the current market conditions to their advantage by stabilizing their corporate actions specialist teams by retaining the current knowledge within the company.

Trezza: The requirements for corporate actions professionals continue to evolve as corporate action events become more complex. The perfect professional is often a combination of many individuals within the team, each providing their particular expertise. With respect to tax specialization, while corporate actions professionals need general knowledge of tax consequences, the detailed subject matter is generally resident within the tax unit. The corporate actions professional must work closely with the tax professional to understand the terms and structure of the corporate actions event, along with the tax consequences. By leveraging the various skill sets within your organization, you could mitigate tax-related risks associated with corporate actions that are subject to withholding tax.

Harkins: The human element of the corporate action process remains one of the most critical and often most difficult to manage, as knowledgeable, experienced professionals are not always in large supply. Automation will not eliminate the need for high-quality, experienced staff to interpret complex corporate actions, especially those that require the review of significant, complex tax documentation. Right now, because of the vast knowledge and experience of corporate actions personnel, corporate actions groups are highly efficient and are already processing at lean and mean staffing levels.

Networking is playing a big part in today's economic environment. Through industry contacts, the potential to learn of a candidate's availability is greater given past interactions and current associations. The ultimate goal is for firms to recognize the importance of investing in the retention of these individuals within their organization.

Pollard: Many firms today find themselves challenged to do more with fewer people, and no longer have the requisite range of in-house skill sets to handle the growing complexity of corporate actions. As a result, organizations are gaining access to subject matter experts with highly specialized knowledge and experience by partnering with external providers for the validation of their corporate actions information. This gives firms the ability to leverage the talent of seasoned and highly skilled professionals without having to attract and retain additional staff for their own back-office operations.

Kumar: Particularly for shops that have global portfolios, it seems there are more tax regulations than you can shake a stick at. In the SIX Telekurs database, we've got flags and categories for single-country tax regulations in the US, Canada, Switzerland, Liechtenstein and for cross-border regulations such as the EUSD. Given that our financial world is getting smaller while at the same time cross-border trading and instrument complexity are increasing, it isn't a surprise that firms are looking for deeper—and broader—knowledge in their operations professionals.

But to the question, "Where do you find the perfect corporate actions professional these days?" I have to refer to what I said earlier—it is expensive to get corporate actions right. As a firm's business grows, or as it is subjected to increasing regulatory/compliance pressures, it is only to be expected that the diversity of knowledge in its corporate actions team will need to increase as well. One single person isn't necessarily the master of all the possible nuances—nor should they be.

In order to make sure we get our corporate actions—and indeed all our financial information—right, SIX Telekurs has thousands of people dispersed across offices in 23 countries. We find this is the only way to ensure we are intimately familiar with the local markets, the local languages, the local industries and the local regulations. That familiarity is critical to accuracy, something we value above all.

Filanowski: The problem has always been that back-office personnel and data operations is usually an afterthought. They are viewed only as a source of cost. Most of the time, back-office personnel are paid much less than front-office staff, and are usually the first to be scaled back in a cost-cutting initiative. However, the tide is turning. In today's global marketplace it is even more vital to find people who not only understand the local tax regulations, but also the nuances of securities and complex security processing. There is a myriad of tax regulations that firms and investors, must comply with, including staying up to date with changes to every country's tax legislation. Not to mention the fact that most corporate actions involving a tax element require a significant degree of manual processing. Recruiting the right people for these roles is very difficult, however, by changing the perception of the 'back office' from just a 'cost-center' to play a more strategic role in the firm may help attract and retain the calibre of people required.

"The corporate actions professional must work closely with the tax professional to understand the terms and structure of the corporate actions event, along with the tax consequences"

Lori Trezza, DTCC

Sponsor's Statement

Complexity in Action

The word "complex" has often been associated with corporate actions. From the complicated lifecycle to the challenges created by the differences across markets, the processing and management of corporate action information can cause major headaches for firms already struggling with cost and resource constraints.

On the heels of the market meltdown in 2008, the operations team at Fidelity ActionsXchange, a provider of global corporate actions solutions, began to see corporate action events that were unlike any they had encountered during our organization's 15-year history. Companies in some markets began to seek more creative ways to compensate investors through dividend payments, while others scrambled to restructure debts through voluntary corporate action announcements. Between November 2008 and March 2009, there was a 27% increase in voluntary announcements compared with the same period the previous year.

As a result, ActionsXchange developed its own definition of the word "complex" in order to identify those corporate actions that would require an additional layer of scrutiny. After a rigorous analysis of market trends, we determined that any voluntary corporate action announcement by a single issuer involving five or more related securities would be considered "complex."

The following represents some of the recent unique announcements ActionsXchange has analyzed:

Harrah's Entertainment and its affiliates, General Electric and BCP Voyager, recently contributed to the increased volume and complexity. Harrah's voluntary announcement affected 13 types of bonds, resulting in the creation of 65 events. General Electric's announcement affected 27 bonds and 54 events were created. BCP Voyager, acting on behalf of hedge fund Distressed Opportunities Master, offered to purchase residential mortgage securities that are guaranteed by Syncora Guarantee. This offer was for 56 different types of bonds and resulted in the creation of 112 events. The offer on behalf of this fund indicates a new breed of players in the market purchasing toxic assets.

It was also announced that Full Value Advisors, another fund company, was buying shares of Wilshire Enterprise at a premium to its current market price. This action by the fund countered an offer by the company, which was repurchasing its own shares in the market for less than market value.

Between the announcement of Harrah's offer in the market and the expiration date of the tender in April, there were updates to the offer terms. When there are updates to voluntary complex events, ActionsXchange proactively contacts agents to verify information received from our providers and *ad hoc* sources. The events are subsequently reconfirmed with revised information.

Bodycote Int'l, a UK-based company, recently announced a return of capital for its shareholders. This payment was through a creative and complicated process that required the company to consolidate its shares and issue "B" shares with redeemable options. The redemption options allowed shareholders to redeem all shares as a single dividend or as a partial redemption now and the balance on the expiration date. This type of market announcement requires multiple corporate action types to accurately reflect the events as announced in the market.

In another example, Alba also announced a capital return payment for its shareholders, however in this case, there was no consolidation of shares. The company issued redeemable "B" shares and upon receipt, holders had the option to elect a one-time payment as a dividend or the redemption option. Again, this market announcement required multiple corporate action event types, which is not always accurately supplied by single-source data providers.

The case has never been stronger for outsourcing the validation of a firm's corporate action information to external providers that have the expertise and experience to address the growing volumes and complexity of corporate actions. This not only makes good business sense from a cost and resource perspective, but even more importantly, from a risk perspective.

As part of Fidelity Investments, ActionsXchange has a unique understanding of market trends and changes in investment strategies, and is very sensitive to the risks surrounding corporate action information. In all cases, regardless of the complexity, our team of subject matter and market experts follows detailed guidelines when researching event data to ensure only the most comprehensive, timely and accurate corporate action information is provided to our clients.

The current economic climate is set to increase the volume and complexity of corporate actions over the next year and potentially into the future. This will present a challenge for firms choosing the status quo and an opportunity for those firms willing to rethink their current corporate actions models. By partnering with providers who can deliver robust and flexible data solutions, financial institutions can stay ahead of the growing complexity and, at the same time, reduce their cost and risk.

Laura Pollard is executive vice-president of Fidelity ActionsXchange
www.actionsexchange.com

Q&A

Standards Are Key

IRD speaks to Phillip Silitschanu, senior analyst at Aite Group, about the challenges ahead for the corporate actions market

Phillip Silitschanu

What is currently the biggest problem for corp actions professionals?
Standardization of information and messages. Swift and ISO are working towards a globally accepted messaging standard, ISO 20022, due to be implemented in 2011. But the bigger problem is that definitions for basic information contained in a corporate action varies from country to country (in some cases, the same terminology can mean different things from market to market in the same country). Being able to reconcile conflicting information is very difficult, and the consequences of an error can be grave.

How could global standardization of corporate actions impact this space?
The standardization of messages (ISO 20022) will be a quantum leap forward. While it will not standardize actual corporate actions, it will standardize messaging (notably, ISO 20022 standardizes XML messages, opening the door to the next generation of message data). Security Market Practice Groups are working towards developing Event Interpretation Grids to give each market solid definitions of the terminology and types of corp actions in each market.

Are firms spending enough on corporate actions processing?
They are spending too much money on the wrong things—manual processing and error and omissions losses. Both are higher than they should be because firms are not spending enough on advanced dedicated corporate actions software systems.

What major challenges do firms face?
The types, complexity, urgency, risk, and volume of corporate actions are growing faster than ever before, thanks to the greater number of firms dissolving, spinning off divisions, merging, and looking for new (creative) ways to raise capital through new offerings. The time available to process corp actions is compressing, as investment managers are expecting faster responses in the other areas in their investment business (ie, faster trading technologies, faster information delivery, etc). Companies (namely custodians) caught off-balance with slower corp actions systems, or with manually intensive corp actions groups, will face major funding issues for addressing inevitable error and omissions costs.

Clear-cut transparency.

In a multi-faceted market, our Fair Value Pricing Service offers transparent valuations for your fixed income securities. SIX Telekurs understands that you need to base your analyses on figures which are uniform and transparent.

Our Fair Value Pricing Service applies a systematic, engine-driven calculation method. Therefore, we can provide you with fair value prices, undistorted by market rumour or sentiment.

You can look up and monitor every step of each calculation to understand exactly how we got there. We offer valuations of over 56,000 bonds and 26,000 floating rate notes in eleven different currencies, four times a day.

An incisivemedia publication

Incisive Media, Haymarket House, 28-29 Haymarket, London SW1Y 4RX