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Corporate Actions

Special Report

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Editor's Letter

The Trade-Off Fallacy

Some parameters are widening for what to include in a corporate action to be processed, as predicted by panelists in the Virtual Roundtable in this special report. Even so, without adoption of the ISO 20022 standard for corporate actions, which these same panelists point to, it may prove impossible to spread out the scope of information included in those action notices.

The detail now expected can include tax information, special processing requirements, and information on the country of origin or holder of the securities. It's not just busy work—these are important pieces of information for risk managers. Yes, there are economic pressures on data operations that could preclude improvements to include these additional details, as panelists acknowledge, but as the cliché goes—you get what you pay for—if firms cut corners at the outset, they are chancing not managing the risk properly as a result—and having to pay a lot more due to investment losses later on.

The other pressure on corporate actions processing is the drive to process the information ever more quickly, as panelists addressed in response to our question about straight-through processing. It's promising for the industry that these professionals also acknowledge that including greater complexity in corporate actions messaging standards, for the processing, is a challenge that must be met.

Our panelists wisely decline to accept a trade-off between accuracy and timeliness, as pressed in another question posed in our Roundtable. They largely respond by emphasizing the need for both. Front offices are demanding more preliminary announcement information, which does help with timeliness. Automation projects, if they live up to the ideal, can distribute accurate data faster. Pardon the use of a second cliché, but if people can put a man on the moon, surely the financial industry can do that.

Yours sincerely,

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NEWS

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Interactive Data Expands Corporate Actions

Data vendor Interactive Data has expanded the coverage of its global Corporate Actions Service, which it has made available via a web services application programmable interface (API) so that customers can obtain on-demand access to corporate actions data.

The coverage of the service has been expanded to include exchange listings, de-listings, initial public offerings, identifier changes and shares outstanding. These bring to more than 70 the number of corporate action event types covered by the service globally. The new API enables clients to access this data whenever they require it, rather than receiving files from Interactive Data throughout the day, based on factors such as their geographic requirements.

"Now [the corporate actions service] is not driven by when we add information to the database or what information has been collected in a time period," says Charlie Price, senior director for entity data products at Interactive Data. The corporate actions data is available in ISO 15022 and XML formats. Price says Interactive Data is working on making the data available in ISO 20022.

Nicholas Hamilton

Broadridge Takes XSP Corporate Actions System

Technology services provider Broadridge Financial Solutions has integrated XSP's v5 corporate actions automation software into its application service provider platform, in a collaboration that will offer customers improved time to market and reduced total cost of ownership.

XSP's v5 Platform is being run as a service within Broadridge's tier IV data centers and managed by Broadridge's Operational Centers of Excellence. The collaboration involves "two-way integration," says Stephen Quigley, Broadridge's London-based vice-president, managed data services.

"Our books and records systems have to be the provider of account information, security information and positional information," he says. "And we are sending back to those same systems all the outcomes of those corporate actions processing and the postings."

New York-based Brendan Farrell, chief executive of XSP, says including XSP's software is great value for Broadridge. Quigley adds that Broadridge, which has a similar partnership with Information Mosaic, decided to collaborate with XSP to provide greater choice to its clients.

Nicholas Hamilton

Fidelity ActionsXchange Adds Material Events

Boston-based corporate actions information provider Fidelity ActionsXchange has added material events capability to its information services, according to Laura Pollard, executive vice-president and head of Fidelity ActionsXchange.

Material events are events included in the category of related events—events related to corporate actions that are also within the realm of information Fidelity ActionsXchange provides. The new capability supports broker-dealers' needs in serving customers with municipal bonds information. Fidelity ActionsXchange will validate this information, at first internally for users within Fidelity Investments, and later for outside client users, says Pollard.

The US Securities and Exchange Commission and industry self-regulatory organization Financial Industry Regulatory Authority have issued guidance statements recommending greater disclosure of material events. Fidelity's new capability is a response to these statements, says Deborah Culhane, chief operating officer at Fidelity ActionsXchange.

In addition, Fidelity ActionsXchange's ActionNResponse service, launched in December, has added both internal Fidelity Investments users and a large outside firm as a client user, according to Pollard.

Michael Shashoua

Fidelity Units Upgrade Corporate Actions Messaging

Two Fidelity Investments units—National Financial and Fidelity ActionsXchange—are working with participants in the ISO 20022 messaging standards pilot to improve upon automation of corporate actions events by increasing the number of details included in the standards format.

Tax qualification status, options and attributes of corporate actions all need to be detailed in ISO 20022 messages, says Deborah Culhane, chief operating officer of Fidelity ActionsXchange.

Asset Control Integrates DTCC's Corporate Actions Feed

Integration of the Depository Trust and Clearing Corporation's (DTCC) corporate actions data feed with Asset Control's AC plus data management system will provide greater transparency and flexibility to customers wanting to know in real time how corporate actions will affect the company's assets, says Asset Control's New York-based chief executive, Phil Lynch.

The AC Plus data management system will now provide connectivity to DTCC's global corp actions validation service as standard.

Corporate Actions: Expanding the Parameters

Inside Reference Data gathers leading industry professionals to discuss how the addition of new fields to corporate actions data is complicating efforts to improve automation of processing that data, straight-through

How are end-user requirements changing in the current economic environment?

Ian Davidson, EMEA product head in the electronic markets unit, Citi: Whilst not necessarily related to the economic environment, end-users are demanding more secure methods to receive and respond to corporate actions due to greater focus on operational risk by new regulations and regulators. Where previously providers would be pushing for end-users to give up fax usage, the drive is now also coming from end-institutional investors to change.

Geoff Harries, global head of asset servicing, DST Global Solutions: The user requirements for corporate actions notification have not changed materially over the past 10 years. Being able to receive timely, accurate and complete information from which users can make decisions and process corporate events has always been a fundamental requirement. What has changed is that, in the current investment climate, there is an extremely low tolerance for losses caused by poor corporate actions handling. Therefore, the availability of proven solutions that can address the inadequate handling of corporate actions is of great interest, especially the linkages between corporate actions management systems, investment decisions and investment accounting.

Laura Pollard, executive vice president, Fidelity ActionsXchange: End-users have heightened their focus on continuing to improve the breadth and depth of corporate action information, including expanded asset and market coverage. Clients are also looking for much more detail on the announcements, including tax information, special processing requirements, or other country- or holder-specific information that may impact entitlements. This level of coverage and detail not only enables more effective risk management, but enhances firms' ability to process more complex events in a more efficient, straight-through processing (STP)-enabled process. In this environment of uncertainty, firms are looking to access accurate and timely information combined with technology that delivers end-to-end process efficiency and overall customer value.

Gerard Bermingham, senior vice president, business strategy, Information Mosaic: End-users continue to require cost-effective, accurate, and timely data on corporate actions that impacts their portfolio. This data needs to provide them with the information needed to make their decision. This requirement has not changed due to the current economic environment. If anything, it has become more important for information to be provided accurately and quickly to help in making a decision. Knowing a corporate action is in progress not only helps the end-user make their decision for that specific corporate action, but also helps in their stock analysis and buying/selling decisions. Without having that accurate and full picture, the decision could be wrong.

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Christine Strandberg, product manager, global transaction services, SEB Merchant Banking: Users' primary focus has for some time been on reduction of risk and cost. For some, this has resulted in investments in system support for automation, and they want to ensure they reap the benefits of this; others have not yet made this investment and now find it more difficult to do so, and request their providers to offer alternatives to costly system implementations.

Laura Fuller, data consultant, SIX Financial Information: There is a need to save money in institutions and at the same time manage data effectively to deal most efficiently with regulation. In essence, their demands from a data vendor do not change—they want good-quality data, received in a timely manner at a low cost, which we aim to achieve. The focus on each of these

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requirements does tend to reposition itself in respect to the economic environment. There is also an increasing focus on internal systems. Larger institutions, in particular, are reviewing their current data management systems and, in some cases, renewing them to centralize and refine their control over the data internally. Data vendors are increasingly able and willing to work closely with clients who are undertaking these types of project. Success from both viewpoints is achieved when the data supplied matches the client's needs as closely as possible in terms of content and format. Customized solutions, rather than set products, are becoming more prevalent in new projects.

Malene McMahon, senior business manager, securities initiatives, Swift: We are finding end-users continue to strive for greater levels of automation and lower risk while maintaining a watchful eye on costs. Some projects are seeing delays due to cuts in technology spending, but service to clients is still high on everyone's agenda as corporate action service providers strive to differentiate themselves from the competition.

Tim Lind, global head of legal entity and corporate actions, Thomson Reuters: The ability to demonstrate appropriate controls and transparency of all critical processes has never been more of a requirement in financial services. Driven by the scrutiny of regulators, auditors, compliance officers, and especially customers, firms cannot afford to appear complacent about risk controls and fiduciary accountability in this environment. However, while the desire to become more efficient is there, cost pressures force institutions to be selective with their budget. Vendors are challenged to adapt business terms and delivery models to help firms achieve their goals. Providers of content and workflow tools offer more integration via hosted solutions that reduce overall cost of implementation and maintenance. End-users want to focus scarce resources on advancing skills that can define business policies, manage risk, and improve customer experience—rather than the mundane aspects of data integration and management of IT infrastructure. Vendors and service providers are taking more of these burdens from their clients and offering better linkage in data and simpler administration of the software solutions they license.

Where is the market in terms of STP, and what can be done to achieve greater automation?

Davidson: Corporate actions have historically been lower in the pecking order for automation investment against other activities like transaction confirmation and settlement, due to lower volumes and far greater complexity. However, with other areas reaching quite high levels of STP, investment focus has switched to corporate actions and we see good automation progress, particularly for more common event types. Greater STP automation is limited by the use of ISO 15022 as it is open to some interpretation, and would benefit from the adoption of ISO 20022 and XBRL, but this in turn is impacted by economic constraints across the industry.

Harries: One of the original barriers to automation over the past three to five years was the adoption of ISO 15022 corporate actions messages by agents with the responsibility to notify clients. Now that market coverage is in place, and the guidelines for populating the messages have matured, there is more predictability in the consistency of what is received, which, in turn, is enabling

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automation of the critical data-cleansing and validation processes. Consistency in the population of information exchanged between participants in the corporate actions value chain reduces the amount of exceptions and should lead to the expected benefits automation promises. The next level of automation will capture election decisions and manage them all the way through to the investment accounting system to execute the stock and cash adjustments, and further downstream to increase operational controls around entitlement reconciliation.

Pollard: Evolving market standards, including the introduction of ISO 20022 messaging, will improve firms' ability to achieve much more progress in introducing and expanding STP initiatives. While the adoption of improved standards will provide greater ability to automate processes, firms

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will also need to evaluate their underlying technology. To take full advantage of expanded market and event information, firms will need access to technology that can more efficiently capture and utilize this information to support the lifecycle of an event, from event announcement through entitlement capture and delivery.

Bermingham: STP has increased significantly over the past five years as more firms use applications to automate their processes and as market practice groups, such as ISITC North America, agree on data standards. This enables a significant increase in STP for the straightforward corporate action, such as stock splits or cash dividends. However, more complex, decision-based corporate actions continue to contain a number of breaks in STP. The timeliness and accuracy of data plays a major part in reducing STP for these types of corporate actions. Additional text and narrative continues to play a pivotal role in providing the key information for a complex corporate action. Even as standards have improved, the use of additional text has increased rather than decreased. The automation of data from issuers, such as the 'Issuer to Investor' XBRL messaging initiative in the US, is needed to improve STP and achieve greater automation across all corporate actions. This will go a long way toward reducing interpretational risk and misunderstandings by those passing on the data to the end-user and beneficiary.

Strandberg: STP rates are gradually increasing, and will likely continue to do so for some years yet. It is important to note that the rate for corporate actions will never be as high as for settlement instructions; the complexity of events and the continuous adaptations of them by issuers and their agents makes STP rates even close to 100% very difficult and expensive, if not impossible. Firms should focus on events that are less complex, but have a significant volume.

Fuller: STP is still the gold at the end of the rainbow—never quite reached, although more companies are giving it a good try. It is more accepted however that absolute STP and full and complete automation of corporate actions will never happen. There will always be an element of manual intervention due to the complexity of events and the degree of risk involved in getting it wrong. Of course, there is still room for improvement in STP and automation levels, but as firms attempt to move in that direction, they accept the limitations. Issuer corporate actions are getting more complex and standards and processing systems need to evolve to cope with new challenges. Greater automation will only be achieved if more firms invest in standards used to automate corporate actions, such as ISO 15022, ISO 20022 and possibly XBRL.

Issuers of corporate actions know the benefits of using standards for event announcements, but the costs and risks of moving to a format such as XBRL are significant. Regulation is a driver; otherwise, this will be a long slow process. Standardization of announcements at issuer level would increase automation levels through all intermediaries. The introduction of Official Corporate Action Event Reference (COAF) into the ISO 15022 standard shows issuers cannot yet embrace standardization. COAF identifies an event uniquely from its conception and throughout its lifecycle, from issuer through all intermediaries and vendors. The ideal would be that it is allocated and owned by the event issuer. It was added to the ISO 15022 standard in 2008 but is not yet in general use. Where it is available, it is allocated by ICSDs or exchanges, not the event issuer.

A 2011 survey by AIM Software showed that, of 303 financial firms surveyed, 40% had no plans to invest in the automation of static data, corporate actions or price data—a surprisingly large figure, showing there is still a long way to go before automation is the norm.

McMahon: Corporate actions has seen tremendous growth in automation during the past five years, with the continued growth of ISO 15022 messaging globally. However, much still remains to be done, especially in the US market. Hence the latest initiative by the DTCC to reengineer its corporate actions platform, adopt the new global ISO 20022 corporate actions messages and eliminate its proprietary files. This transformational change will see some leaps in automation levels at some of the largest corporate action service providers as they implement the full suite of new messages with DTCC over the course of the next few years.

In other parts of the world, we see a continued growth of ISO 15022 (more than 11% growth in EMEA and close to 20% in Asia) but also the emergence of ISO 20022 automation projects, with the stock exchange in China as well as the Japanese central securities depositories. Some Eastern European countries are also discussing the options

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and working towards ISO 20022 adoption in the years to come.

Lind: Firms recognize investments in automation, data management, and decision support are consistent with a manager's fiduciary responsibility. Still, automation in a complex and market-nuanced operation like corporate actions will always present massive challenges. Although common semantics and standards like ISO 15022 got us to a point, vast improvements can still be made to achieve greater automation.

Collaboration among banks in interpreting event semantics and working towards compromise will help create better harmonization of requirements and better rates of automation. The market is also taking its first steps toward a new standard in ISO 20022, but co-existence will create additional costs and fragmentation will cause a step backward in automation before we move forward again. More fields, more interpretation, more potential for proprietary extensions, and more complexity will be a new challenge to be overcome, but one that could hopefully lay the foundation for years to come. Data providers and software solutions will need to collaborate closer than ever to manage change, preserve existing investments, and insulate end-users as much as possible.

What do you see being more important to end-users—more accurate data received closer to market deadlines, or less accurate data received further from market deadlines? Is it better to have preliminary data sooner than confirmed data later?

Davidson: As a service provider, accuracy remains our priority. Information we send to end-users will be used in their investment decisions and must be accurate before we send or solicit for entitlement decisions.

Harries: The ideal state is one in which more accurate data is received further ahead of market deadlines, and with automation enabling the internal decision date to be as close to market deadline as possible. Corporate actions automation projects will make that ideal state possible as the removal of inefficient manual processing allows corporate actions

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departments to set internal deadline dates closer to earliest agent deadline. This will be made possible thanks to increased processing efficiencies. There is no compromise to be made—organizations need timely and accurate data on which to base investment decisions.

Pollard: While timeliness and accuracy of announcements are critical for all market participants, we generally see a greater demand for preliminary announcement activity (which is expected to be correct) in front offices. The back-office process is in need of more timely, accurate and complete information to enable STP and minimize adjustment processing activity. The key is the ability of a corporate actions service provider to access and validate all market information on the most timely basis and enable the end-user the full flexibility to use this information in a highly transparent manner at any stage of the announcement process. For example, portfolio managers and analysts may want to see announcements in the earliest stages, even as a FYI. To avoid unnecessary work, back-end processing will require this information as soon as possible once the announcement is validated and complete, to enable the highest level of processing efficiency and control.

Bermingham: Neither approach is more or less important. It is important to have accurate, confirmed data as soon as possible to understand the details of the corporate action, to analyze its impact on the stock and the portfolio and to make the right decision. In receiving accurate data just before market deadlines, the decision maker is left with little time to analyze that data and make their decision. The decision must be passed through a number of parties before it gets sent to the issuer and applied. By waiting until very close to the market deadline to decide, one risks missing that deadline or making the wrong decision. Having the accurate data earlier ensures the decision can be made earlier and reduces the risk.

Strandberg: Investors would obviously prefer accurate data received as early as possible, and this preference is shared by account servicers. However, usually there is a trade-off between speed and accuracy, and for custodians it is difficult to not opt for sending only verified information (i.e. data received from the issuer, another official source or the account servicer) to clients. Efforts should be directed at improving the flow of information from issuers through the chain of intermediaries as early as possible in events.

Fuller: Our policy is to add data to our system as soon as an event is officially confirmed by a primary source; generally this means we add the event when it is announced to the market by the issuer. At this point, information may be preliminary, but the event itself will be confirmed. As further information is provided, updates to the original message are sent to clients. This approach has proved preferable to our clients; they want to hear about events as soon as they are announced. In fact, there are increasingly requests for 'real-time' corporate actions, meaning clients do not want to wait until end of day or even intraday to receive a corporate actions file.

SIX Telekurs has developed a mechanism to satisfy this need. Data provided closer to key event dates is not necessarily more accurate, it is simply more detailed. Our clients want to be informed about the event as early as possible with as much detail as is available. In some markets, key pieces of information are not announced until, for example, ex date. If clients were not given any details of the event until all was available, they would not be ready to act and would incur losses. In general, financial institutions will not rely completely on one source of corporate action information. Information is often cross-referenced to another vendor source as well as to custodian information.

McMahon: Accuracy of data is of tremendous importance and service providers also want as much information as early as possible. So we continue to see a high demand for preliminary information. No-one wants to wait until all the relevant data is available before receiving information about a pending corporate action. All the clients we speak to want the best of both—fast and accurate information as quickly as possible. Of course, the closer to the market deadline, the higher the premium on accuracy.

Lind: This depends on where you reside within the investment process. Securities service providers require accurate data so they can determine the implications of the event on their customer's holdings and allow them to make an informed decision about the best course of action for the portfolio. For the investor, preliminary data may allow them to adjust models, buy or sell positions; in effect use the data to arbitrage on the event itself and

Ian Davidson, Citi

determine what strategy they may need to make on the event to increase returns. In today's market, institutions will want both. Preliminary data is key for increased returns by allowing the portfolio manager with timely market intelligence to create additional value to a fund or a position. When it comes time to execute an election or update an accounting system, the data has to be on-the-money, or you'll be out of some money. Again, the need to meet both objectives puts greater demands on automation technology to be able to process cancels, amends, and updates to previous notifications as new, and more accurate, information becomes available.

To what extent is the need for corporate actions data moving into the front office? Can its use in the front office result in firms increasing spending on corporate actions data and processing?

Davidson: From a service provider perspective, we see greater demand for us to adjust start-of-day positions for corporate action events on behalf of buy-side clients. This reflects the demand for automation, but the recognition that it is not easy for buy-side firms to do. Brokers' ability to automatically replace orders to reflect revised terms due to corporate actions appears limited to a few markets if at all, and remains relatively manual.

Harries: The principal driver of corporate actions processing projects is reducing the risk of processing errors and associated costs. Many of those costs can be associated with sub-optimal investment decisions. A consequence of the operational controls and efficiency gained through the delivery of a successful automated corporate actions solution is that the automation will give the front office more time to make considered investment decisions, and additionally, within the extended time available, possibly take advantage of any favorable market movements for further investment activity that would have otherwise not been possible.

The notification to the front office of corporate actions information has always been a requirement with a focus on increasing the quality and timeliness of the supply of the necessary information. Investment in, and successful delivery of an effective corporate actions processing solution will without doubt greatly assist decision making, rather than extend the issues surrounding the making of elections on incorrect positions or missing deadlines.

Pollard: Overall, we see a growing demand for corporate actions information in the front office to support broadly diversified asset management strategies, and more recently, highly specialized investment programs and asset strategies. Whether this will result in greater spending on actual announcement information within a firm is uncertain, as we work closely with clients to support more enterprise strategies to more effectively manage the cost of data. Where we do see increased spending is in technology that supports STP, introducing more cost-effective processes designed to reduce overall cost of processing announcement and entitlement activity and deliver improved risk management.

Bermingham: Corporate action data has always been needed in the front office. Without passing on the data to the front office, the impact of the corporate action on a position, price or portfolio is either unknown or comes as a surprise. A sudden fluctuation in a stock's price due to the announcement of a corporate action or a dividend going ex can have a major impact on the portfolio, a fund's NAV or value of a position. Providing accurate and timely corporate action information to the front office mitigates these risks, allows for informed decisions to be made and becomes part of the trading/investment decision analysis. Corporate actions have so often been seen as a back-office function; however, the analysis and decision completed by the front office should be handled like any other trading and investment decision and, although admittedly not as frequent, the decision and analysis is no less important.

Providing the data electronically to the front office will significantly improve the decision process and reduce errors through interpretation or lack of time. As management and accuracy of the corporate action announcement improves and stabilizes through agreed market practices, and implementation of applications that can automatically compare the data, the front office is beginning to see the importance of getting this data sooner. Front office areas are looking at applications that can provide this data to help them analyze and review their decision, thus the spending on such data and applications used by the front office is increasing.

Strandberg: Most types of corporate actions have at least a possible impact on the front office. But the need for data differs: the front office is more concerned with what is to take place than how this is to be accomplished. Asset servicing departments, whether at account servicers or their clients, cannot separate the two. The different needs of front and back offices may result in different IT

Virtual Roundtable

Christine Strandberg, SEB Merchant Banking

solutions for the different teams, usually with less priority given to back-office needs.

Fuller: Corporate action data is slowly moving into the front office, with firms increasingly looking at systems that can deliver all required functionality, front to back office. Trading groups are constantly looking for new trading opportunities and timely, good-quality information is vital for this, as well as minimizing risk. They need to know a security has dropped in price as the result of a split, for example, rather than some other cause. Working for a data vendor that provides basic data, corporate actions data and pricing data, my focus being on basic and corporate actions data, I have had no real dealings with front offices thus far. But that may change. The front office is historically seen as exciting and innovative, with the likelihood that more of a firm's budget is allocated to dealing with traders' needs. From this angle, it seems likely front-office interest in corporate actions could result in increased spending in this area.

McMahon: We are seeing recognition of the potential for using corporate actions data in the front office. The more information front-office players have regarding market events, the better they can serve their clients.

Lind: Making informed and intelligent decisions in the best interest of the portfolio or customer is at the heart of what creates trust (and fees) in this industry. Corporate actions can alter the investment outlook for an issuer or create trading opportunities. As investors are looking for timelier, concise and easily accessible data, demands by the front office can facilitate back-office adoption of new standards and new technology. The investment management process requires that all corporate actions be processed with the same fiduciary rigor as the asset selection process.

However, firms can't always rely on their agents or sub custodians to be the only source of data. Firms will also need to source data directly from data vendors to enable the front office to create strategies that increase total return for their firms and their clients. Firms are also now looking to data vendors and software vendors for help in not only sourcing the data but in the notification and response processing phase. Another interesting area might be the front-office influence on the modernization of interfaces and the demand for mobile tools such as iPad apps and proactive alerting of updates.

Virtual Roundtable

What do you expect firms to spend more on in the next two years compared to previous years?

Davidson: I believe investment focus will be determined by new regulations e.g. Dodd-Frank for OTC clearing, and that specific investment in corporate actions will be tempered around this.

Harries: We support over 160 global and regional buy-side investment firms and third-party administrators. We definitely see renewed interest in corporate actions projects from asset management and asset servicing firms in countries from the UK to Australia. These projects span the initial data cleansing process, through to the interface into our investment accounting solution, HiPortfolio. The scope of these projects covers income and capital event processing, with elective event automation being a realistic goal.

Pollard: We see two ongoing trends in firms' spending: 1) Customers want expanded access to timely, accurate and comprehensive market announcement activity supporting global investment diversification, as well as introduction of new investment strategies and underlying investment product innovation. 2) In the technology space, access to systems that, in conjunction with announcements and evolving standards, can deliver the most efficient controlled end-to-end processing solution for improved ROI as well as greater customer satisfaction.

Bermingham: Spending in previous years has focused on the source, accuracy and comparison of corporate action data. The focus has now shifted to providing data to the end-user faster through existing or new applications. Front offices are being included in the data and application selection process as they see the benefits of receiving information and making their decision electronically. This shift will continue over the next two years and the spending will be focused on this area.

Strandberg: Given the many upcoming regulatory changes, IT spending is likely to focus on mandatory changes rather than client-driven development. These changes will hopefully result in reduced event complexity and an increase of the possibilities for automation, thus reducing risk and cost for the market.

Fuller: Firms' spending will depend on the economic and regulatory landscape. Basic data will be a focus, given the advent of the legal entity identifier and the demands of legislation such as Fatca and MiFID II. Data management and big data are hot topics and firms may continue to allocate budget to improve efficiency in this area and remove the issues of inconsistency caused by different data silos serving different areas of the firm. In this, the development of standards will still be important and increasing acceptance of ISO 15022/ISO 20022 in smaller firms may be a feature. Risk is still a key factor in the corporate actions environment, with financial penalties and loss of reputation as consequences of incorrect data. Automation and standardization have been high on the agenda for several years for risk mitigation and this is unlikely to change over the next two years.

Many firms already outsource their back-office activities to specialists. This may become more popular in the next couple of years as the costs of maintaining this operation internally become too high and resources need to be concentrated on core activities. Experienced and skilled employees are necessary for corporate actions processing, good systems are not enough, and economies of scale make sense.

McMahon: In the US market, the DTCC reengineering project and their adoption of ISO 20022 will result in a significant upgrade for all US market participants as they migrate away from the batch-based proprietary files and begin to adopt real-time messages for both announcements and election/instruction processing. The benefits of the increased levels in automated instruction and election processing will also be significant. DTCC has set a migration deadline of 2015 for the elimination of their proprietary files, so US participants will be focusing resources and spending on this transformational change between now and the end of 2015. In Europe, we see a number of Tier 2 banks willing to invest resources in automation processing while the investment managers feel the need to go for higher STP rates through increased compliance with market practices. To get there, they encourage their account servicers to increase their compliance rates with market practices.

Lind: There is still a lifetime of legacy infrastructure to be modernized and given the additional burdens of compliance, audit, and regulation, we expect firms to continue to search for innovative ways to maximize the value content and technology in the next two years. Among global firms with multiple lines of business, we expect larger investments in shared services within the bank to improve the governance and consistency of data in downstream processes. Therefore, we expect greater capital expense in creating common infrastructure and workflow technology to provide transparency and commonality in business processes that will allow some firms to escape the ravages of redundancy. The bottom line is to expect a more intelligent and more frugal investment industry than ever before.

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The Corporate Actions Challenge

Corporate actions processing remains one of the last bastions of risk in financial services. It is a horror show of paper and the related misinterpretation about what is on the paper, accompanied by manual processing and near-zero STP rates. Why? The current approach inserts risk deep into the system at a mammoth operational cost, driven by the need to multi-source, scrub, reconcile and often manually re-enter data.

Worldwide, there are close to 1 million complex corporate actions announced every year, coupled with another 10 million corporate actions announcements, with about $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/offerer's announcement effectively delays the communication of this information to investors, burdens their intermediaries, and maximizes the possibility for inaccurate communication of 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 asset class automation. STP initiatives have taken hold in other asset classes and operations, but corporate actions processing seems almost consigned to the shadows of the arcane, in a system of paper-based regulatory filings and newspaper-to-custodian notifications.

Financial messaging standards—created as a way to standardize communications between counterparties, both ISO 15022 and the newer ISO 20022, have set the industry in the right direction to move automation of corporate actions forward. ISO 15022 got us part of the way there, but ISO 20022, with its flexibility and ability to link messages to business processes, will help get our heads around the corporate actions problem. Swift remains committed to working with the industry to roll out ISO 20022 globally and intends to build on efficiencies gained from adoption of ISO 15022. (Note: ISO 20022 messages for core corporate actions have been made backward-compatible with the ISO 15022 messages, which means for those not ready to move to ISO 20022, those messages will continue to be supported by Swift).

In 2011, the Securities Market Practice Group updated market practice guidelines for corporate actions. Market practice assessment tools are central applications enabling industry participants to test the compliance and efficiency of IT systems with published standards and market practice. These are being used more regularly by market participants across the corporate actions lifecycle.

No organization is going to solve the corporate actions problem alone. Market infrastructures can play an important role in solving corporate actions issues. Many market infrastructures will drive the implementation of ISO 20022 and we already see this with a number of key players across the globe. In the US, the Depository Trust & Clearing Corporation has announced plans to migrate from its proprietary formats to the ISO 20022 standard. We also see more interest in key geographies such as Asia, where some market infrastructures are also looking at ISO 20022 adoption, including Japan and China.

Investors are not to be forgotten and shareholders are in a great position to educate issuers. Investors can help their investor relations people better understand how manual steps have created an error-prone process with the potential for heavy losses. For years, the only way to solve this problem was to capture information directly from the source of the corporate actions announcement—the issuer. The only way to do that is to turn free form text—as the corporate actions announcements are issued today—into computer-readable and easily consumed information. By standardizing the information at the source, the industry can reduce errors, cost and risk, and increase transparency. While we believe this to be true, are we asking too much of the issuer community? Is there another way?

Creating a seamless process for corporate actions that goes untouched by human hands and passes directly from the issuer to an investor looking to make timely and well informed investment decisions should be a top priority. We need to look at the data and not just talk about what this means and the impact at a theoretical level. By looking beyond the qualitative measurements of harmonization guidelines and quantifying the progress of STP in corporate actions, we can benchmark best practices and identify the true pain points across the process. If a lack of education and a way to standardize corporate actions information from issuers are holding us back, now is the time to put our collective industry heads together and move this forward.

Hervé Valentin is head of asset servicing, Swift

Q&A

Progress on Processing

Inside Reference Data speaks to Martin Kruse, senior vice president, global corporate actions, BNY Mellon Asset Servicing, about how firms can get timeliness, accuracy and reduced risk through improvements in handling of corporate actions

Martin Kruse

Does BNY Mellon see progress underway on straight-through processing of corporate actions?
There has been steady improvement within corporate actions over the past several years. Industry working groups in different parts of the world all have had a positive impact and identified common markets standards and practices. As more market participants migrate to ISO 20022, there will be even greater levels of STP. One of the larger challenges remains from the issuer/agent perspective, and we are hopeful the Swift/DTCC/XBRL initiative will help more participants achieve even greater levels of STP and provide a framework for others to follow.

Do BNY Mellon customers tend to emphasize timeliness or accuracy when it comes to corporate actions data? Or does there need to be a trade-off between the two at all?
Timeliness and accuracy are of paramount importance to all our clients. We see differentiation by type of client and what factors are more important to clients. For many clients, more timely data is critical to their investment decisions, even if the data has not been fully confirmed by the market or depository. For other clients, having more accurate information is the more important factor. Regardless of client type, as a custodian and service provider, BNY Mellon continues to look for ways to improve both timeliness and accuracy of our corporate action notifications that will allow the best investment decisions to be made.

How are improvements in corporate actions processing mitigating risk?
As processing capabilities evolve to have more consistent data and market standards, there will be less interpretation risk throughout the event as corporate actions systems are enhanced with more rules-based processes and decisions. Reduction and elimination of interpretation risk can have the most significant impact on reducing the overall risk associated with corporate actions processing.

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