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ReferenceDataReview presents

Corporate Actions

A-TEAMGROUP

Rather than detracting attention away from corporate actions automation projects, the financial crisis appears to have accentuated the importance of the vital nature of this data. Financial institutions are more aware than ever before of the impact that inaccurate corporate actions data has on their bottom lines as a result of the increased focus on risk management in the market as a whole.

This renewed focus on the basics of data management has, in turn, spurred on vendors in the space to significantly up their game. The focus of this innovation has been on bringing prices down, making the implementation of these solutions easier and designing more intuitive user interfaces. This has manifested itself in a range of enhancements, not least of which are the deployment of web-based front ends and software as a service (SaaS) models.

Financial institutions and (surprisingly) issuers have also been doing their bit to improve the often complex muddle of corporate actions data via various working groups and standards initiatives. Earlier in 2009, the European issuer community agreed that a framework for shareholder communication and cross border voting is needed in the market. This was then followed by the release of the results of the Corporate Actions Joint Working Group's standardisation initiative, which is aimed at defining each category of corporate action in the market.

Corporate actions are most certainly back in the spotlight...

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Back on the Agenda

By Virginie O'Shea, Editor, A-Team Group

Despite the economic downturn and tightening belts, this year has witnessed a surprising increase in interest in the area of corporate actions. Rather than being distracted by regulatory endeavours and budget pressures, firms have been compelled to invest in tactical solutions to solve their immediate corporate actions data challenges.

There is a high level of general interest in the space in the market, signalled by the publication of a number of reports by consultants on the subject earlier this year. This is as sure a sign as any that there's some mileage to go on the topic. The standardisation of corporate actions data has also been the subject of a number of discussions at various industry conferences over the year. For example, it is one of the headline discussion topics during Swift's Sibos conference in September in Hong Kong.

In terms of actual progress towards achieving greater standardisation, the Corporate Actions Joint Working Group has finally released the results of its initiative is aimed at defining each category of corporate action in the market in order to allow for the harmonisation of processing rules. The proposals have now been drawn up and they have been sent out to the various national market practice groups (NMPGs) for consultation, according to Paul Bodart, head of EMEA operations for the Bank of New York Mellon, speaking at a Sifma conference earlier this year.

The working group has produced a finalised list of corporate actions categories including key dates, the sequence for those dates and the processing requirements for the various types of corporate action. The scope of the project encompasses all corporate actions and all parties in the corporate actions processing chain, including issuers, market infrastructures and intermediaries.

The Corporate Actions Joint Working Group has done its best to find "the best future market practices irrespective of the current models being used in the market today", said Werner Frey, chairman of the European Securities Services Forum (ESSF. Frey and some of the members of the working group provided details of the progress made in the three main categories of corporate actions: distributions, reorganisations and transaction management, at the same conference in London earlier this year.

The group, which was established in the autumn of 2007 has been working on this project since its inception, when it was tasked by the European Commission's Clearing and Settlement Advisory and Monitoring Expert Group (CESAME) to come up with comprehensive proposals to revise the area of corporate actions processing. It comprises of 25 industry members from the various communities involved in the corporate actions world, focused on removing Giovannini barrier three. The working group is complemented by another working group, which is led by EuropeanIssuers and is focused on standardising general meetings.

"We are focused on providing a toolbox rather than defining corporate actions processing in detail," explained Frey. "The scope of the project includes all securities deposited in European central securities depositories (CSDs)." The focus is on getting the information flow from the issuer right the way to the investor in electronic form using either XBRL or ISO standards.

The group is hoping that once the revisions have come back from the NMPGs, the rules will be ready for market adoption by the second half of 2009. "Changing market practices takes time and we understand that there are still some significant differences between markets," explained Bodart to the conference delegation.

He highlighted the differences between the US and European markets with regards to messaging standards: "The US has taken a different tack from Europe to standardise the delivery of corporate actions information. The Depository Trust & Clearing Corporation (DTCC) is working on it in the US and the Securities and Exchange Commission (SEC) has mandated that all prospectus information and proxy voting must use XBRL by 2011. In Europe, Swift is leading the charge with ISO standards."

However, XBRL US, Swift and the DTCC are working together to ensure the future interoperability of XBRL with ISO 20022. "The work is being carried out in parallel but there is collaboration going on to ensure compatibility between the messaging standards," he explained.

Bodart also put the project into context by discussing its place within the greater picture of European harmonisation and the goals of the Giovannini report. "We are working within the framework of Target2-Securities (T2S) and there is a need for a framework of processing rules to be adopted for the securities market at large," he said.

The T2S project is a move towards the establishment of a single integrated securities market for financial services in Europe via a single platform for clearing and settlement for securities, in accordance with the Code of Conduct on Clearing and Settlement. The ECB claims that T2S will provide a single, borderless pool of pan-European securities and facilitate a settlement process. Market users will access these assets through central securities depositories (CSDs), which the central bank claims will accommodate national and regional differences between European countries.

Although T2S will require CSDs to outsource the clearing and settlement portion of their business to the ECB run utility, the processing of corporate actions will not be carried out on the platform. National and international CSDs will

retain that function, for now at least.

Bodart elaborated on the four main challenges facing the corporate actions community in the current market. The first challenge he identified was the problem of difficult or complex standards that take time for the market to adopt. "Before they can be implemented, they must be properly understood," he explained. "However, Swift is one of the key parties that has been working on this with software providers to ensure that the industry is adopting a truly harmonised approach."

The issue of ISO standards and the move from ISO 15022 to ISO 20022 has also caused some confusion in the industry, said Bodart. But he emphasised that Swift is currently working on making sure the transition from one standard to another is as seamless as possible. The third problem, related to this, is inconsistencies between the different players in the corporate actions market, he added. However, the Securities Market Practice Group (SMPG) is engaged in making sure these differences are minimal, Bodart confirmed.

The final issue highlighted by Bodart during the conference was the ever-present subject of how to get issuers more involved in corporate actions automation projects. "We need to get all parties involved in the process, as working in isolation is not a solution," he stated. "This involves dedicating time and resources to the cause of harmonisation."

To this end, Bodart elaborated on some of the work that Bank of New York Mellon has been engaged in: "The introduction of master records for corporate actions has been of benefit to the organisation as a whole, even the asset management side of the business."

Another panel during the conference also highlighted the problem of how to get issuers involved in the process, particularly UK-based issuers. Markus Kaum, in-house counsel for Munich Re and the only panellist representing the issuer community, said: "There is no difference between corporate actions on a processing level for us. The focus on the issuer side is definitely on general meetings and I believe that the spirit behind the general meetings working group and the Corporate Actions Joint Working Group is different." He suggested that instead of working independently, the two groups should adopt a more coordinated approach.

For now, on the issuer side of things, the progress towards standardising general meetings has been positive. Dorien Fransens, secretary general of European-Issuers, told a gathering of the European issuer community at the start of April that a framework for shareholder communication and cross border voting should be introduced by the end of the year.

Issuers and shareholders have been disintermediated from each other and this has resulted in a requirement for the introduction of a framework for shareholder communication and cross border voting, said Fransens. "We see it as our duty to find practical and, where necessary, legal ways to make this relationship work again," she explained to the issuer delegation. "How can you communicate with your shareholders if you don't know who they are?"

This endeavour entails the standardisation of issuer and shareholder identification, so that companies can identify their shareholders, said Fransens. However, she acknowledged that this would not be an easy task, given the increased complexity of financial instruments and the growth of short selling and stock lending, which allow "empty voting" at shareholders' meetings.

"Shareholders deserve more efficient voting procedures," Fransens contended. Foreign ownership of shares is growing but the cross border exercise of corporate rights is hampered by technical and legal obstacles, she said. Securities are held in accounts with financial intermediaries located in various countries and there is often a lengthy chain of intermediaries between the shareholder and the company.

However, Fransens is hopeful that the group's pending market standards on general meetings and a legislative proposal this year will prompt intermediaries to form the bridge between companies and shareholders. Regulatory intervention and market standardisation will therefore push forward change as a result of the financial market crisis.

Markus Fichtinger, Aktienforum's managing director, added: "We truly believe that it will be the entrepreneurial spirit of companies that will bring us out of the economic downturn ultimately. Policy action might help, or might not, it might ignite or choke economical potential, but at the end of the day it will be the companies to transpose this potential into real economic value, supported by investors committed to long term value creation. This is our common vision of the new financial architecture after the crisis."

For both sides of the corporate actions coin, for issuer and service provider, the crisis seems to have provided some level of impetus to move towards greater standardisation. This has also meant good news for the vendor community in terms of future revenue and they have accordingly been ramping up their efforts in the space.

Earlier this year, DTCC launched a new web browser service offering real-time access to its corporate action database. In the same month, Exchange Data International (EDI) and DPC Data decided to combine their data offerings in the space to provide a cheaper access point to the data.

Later in the year, Broadridge launched a new fully managed corporate actions service aimed at those institutions that choose to outsource the entire corporate actions lifecycle. Moreover, in that same month, cloud services specialist Xignite also entered the corporate actions space with a new web service aimed at providing low cost actions to corporate actions data.

The entry of new solutions and vendors into the market is a significant vote of confidence in its strength at a time when firms' IT budgets are so tight. Obviously there is no guarantee that any of these new offerings will gain market traction, but it can be read as an indicator that the corporate actions vendor community will survive the downturn.

Corporate Actions Standards – The View From a Data Vendor

By Laura Fuller, data consultant at SIX Telekurs

The announcement of a corporate action event and any subsequent updates to it, sourced from the issuer, their agent and any other number of sources, manual or automated, in between, is bread and butter to a data vendor.

Data vendors have similar issues to their clients where corporate actions are concerned, albeit generally on a larger scale. A large operational staff is required to collect the data and if worldwide securities are covered, then worldwide data collection is necessary for local expertise. SIX Telekurs has a data collection presence in 12 countries worldwide, covering the different time zones. Data is available on automated feeds from stock exchanges, but the vast majority of complex corporate actions are still manually collected and experienced staff are vital in this area. Data collection is costly, and becoming more so as data becomes a more valuable commodity. Data quality has to be top rate to satisfy the client base.

All of these issues mean that standards in corporate action provision are vital for the future of all players in the industry.

At the current moment, clients' uptake of ISO 15022 standard services from data vendors is limited. Larger financial institutions have embraced the standard, but overall there has not been a great rush towards standardisation. There are several reasons I can see for this and all are perfectly valid:

- cost, plus uncertainty about migration to ISO 20022;
- current systems work well;
- uncertainty over the usage and content of the standard; and
- standards will not completely eliminate manual effort in the corporate actions world.

However, overall usage of the ISO 15022 standard is growing. Traffic in ISO 15022 corporate actions messages over the Swift network in 2008 stood at 74 million messages. This represents a growth of 14.3% over the same period in 2007 and four times as much traffic as in the year 2000. This does not include messages in ISO 15022 format that are not sent over the Swift network, for example, direct vendor feeds. Swift estimates the full figures could be as much as 125 million corporate actions messages. Financial institutions that are considering upgrading or automating corporate actions systems should seriously consider the benefits of standards:

- most data vendors output data in this format;
- the industry as a whole cooperates in this area, so there is more 'general' knowledge for a project to tap into;
- easier to match, validate, detect quality issues with data vendors; and
- cost savings and risk mitigation.

I have worked on the ISO 15022 format since Swift started to approach data vendors to talk to them about their plans in the area of standards. The standard has produced the greatest amounts of progress in the corporate actions notification process that I have seen. It is not perfect, but the industry is working together to improve it, and that is the most striking development.

Industry practitioners in the guise of the Securities Market Practice Group (SMPG) and Swift have done some great work to move the standard forward with their corporate actions documents, market practice guidelines in the form of the Event Interpretation Grid and worked examples of different events in ISO 15022 format. Data vendors have formed their own group, coordinated by Swift, that meets every two months in order to discuss the standard and all related issues. This is called the Market Data Provider User Group (MDPUG) and it also liaises with the SMPG in order to ensure that vendors follow the guidelines as far as possible. Where the data vendors want to clarify their usage of the standard, this is noted and published in the MDPUG principles document. The principles are reviewed and published on the Swift website regularly. SIX Telekurs has been involved in the MDPUG since its inception and is now co-chair.

The ISO 15022 standard is still evolving. One of the reasons for the relatively slow take-up of the standard seems to be high expectations. The standard cannot solve all the problems in corporate actions processing straight away. It needs to mature and be refined, but it is undoubtedly the way forward for corporate actions processing. Talking to your data vendor is key. If the standard is not formatted as you want it or need it then tell them. The vendor will be able to explain the reasons for your issue, or bring it up with the MDPUG and then the SMPG for further discussion. This is part of the evolutionary process.

Standards will need to become apparent at the level of the corporate action issuer before they can have their fullest impact on the market. However, that should not, and has not, stopped the important work that has taken place further down the chain. Progress needs to start somewhere!

Regulatory Compliance: Get on top of it!

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Governments and authorities continue to impose even more complex rules and regulations on the financial industry. SIX Telekurs has worked with auditors, research analysts and practitioners to explain the background of new regulations and the impact that they will have on your business. Register for one of our events this autumn, and come along to find out what you have to do to stay on course.

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Achieving Straight Through Processing for US Corporate Actions

By Brett Lancaster, vice president of The Depository Trust & Clearing Corporation

It's no great secret that corporate actions remain one of the most risky and costly areas within financial services. The key challenges in corporate actions communication have been clear for some time, but a convergence of factors has presented an historic opportunity and provided a definite solution that can remove the risk and cost almost entirely from the process.

The Current State of Corporate Actions

Corporate actions face four broad challenges:

- No definitive list of all corporate action event types. The current standard, ISO 15022, defines about 60 types, with further sub-classifications, but some are missing, (for example, 'plan of reorganisation') and some are too flexible (for example, 'OTHR').
- No definitive list of underlying data fields for each event. About 200 fields are missing from the standard (for example, tax details, instruction details, status flags).
- No unique identifier. Currently, explicit identification of a corporate action between financial intermediaries is difficult. A unique ID would function in the same way that an ISIN, SEDOL or CUSIP is used in static security data.
- Highly inefficient dissemination process. Issuers fulfil their obligation by sending out a press release, prospectus or legal filing written in free text, ungoverned by formal standards or market practice. Regulation in the US by the Securities Exchange Commission (SEC) mandates filings into the EDGAR system, but this covers only a subset of event types, does not list all data fields and does not mandate electronic disclosure.

An acceptable solution to this mess has eluded the industry for many years and the financial services industry continues to pay the price. If a company makes a decision based on incorrect corporate action information (for example, a date or a payout rate is incorrect) the financial exposure can be significant. Events don't often go wrong, but when they do, it can be costly. Oxera has estimated the actual losses to be between US$400 and US$900 million globally, per year. Change is afoot, however, with the 'perfect storm' of current economic events and the availability of new standards and technology.

The Drivers of Change

Four disparate factors have marked this time of change:

- Economic conditions. The recent financial market turmoil has increased the focus, especially from regulators, on reducing risks, improving transparency and protecting the investor.
- Customer demand. Customers need to do 'more with less' and can no longer afford to pay the huge price tag for market inefficiencies. They are demanding high STP solutions that align with standards and use a universal unique ID.
- Standards maturity. Swift and ISO are driving the next generation standard, ISO 20022, which builds upon the success of ISO 15022.
- XBRL maturity. XBRL, which enables seamless electronic disclosure, is already being institutionalised to issuers in the US with the SEC mandate for the GAAP quarterly financial reporting that came into effect on 15 June 2009.

We have a unique opportunity to solve the corporate action problem, starting with the US and our implementation of a three step plan is already underway.

Step 1: Drive the 'next generation' industry standard for corporate actions

Swift standards with market practice groups have done much to cement ISO 15022 as the corporate actions standard, but it has too many gaps. The next generation standard, ISO 20022, will be global and holistic. Scheduled for release in December 2009, it allows the addition of all the 'missing' data elements.

However, simply having a standard is insufficient; it must be part of a firm's day to day activity, or it doesn't get used. To help overcome this enforcement issue, the DTCC depository for the entire US market will become an early adopter of ISO 20022, making the standard the backbone of its Corporate Actions Re-engineering - a major, multi-year, project spanning announcements, elections to payments. DTCC will be offering ISO 20022 messages, targeted for the end 2010, decommissioning all existing proprietary files on, or before, 2015.

Step 2: Implement a registration system to issue a 'unique ID'

As part of Corporate Actions Re-engineering, DTCC will create a 'unique ID' process to explicitly label all corporate action announcements from the beginning, thus eliminating ambiguity in the update process and the identification of an event between all parties.

The registration system will also allow for additional validation, if needed, by the issuer, (for example, to check that rates are within historical norms and that dates are set logically).

Step 3: Drive issuer-based data tagging with XBRL

The proven technology of XBRL can bring an end to the madness of paper-

based documentation and the problems of accuracy, timeliness and event misidentification that come with the manual entry and re-entry of data.

XBRL is an international, non-profit consortium dedicated to driving transparency through enhanced business reporting. XBRL enables issuers to electronically 'tag' data from within Microsoft Word. The issuer, when writing the press release or prospectus, follows the regular process, except they tag key data. The tagged data is 'embedded' within the saved .pdf or .doc file. Further, the XBRL taxonomy will be seamlessly aligned with ISO 20022.

For corporate actions, XBRL will be a quantum leap forward, but, once again, it will not be a sufficient condition to achieve STP without enforcement. Since the SEC mandated XBRL for GAAP quarterly financial reporting, we seek to leverage this precedent and achieve the same treatment for corporate actions.

Benefits

This initiative will deliver significant change with significant benefits, from issuer to investor:

- For issuers. The intent and content of the originating offer will be clear to the investor and conveyed in a timely fashion without fear of misinterpretation due to manual manipulation. Issuers will incur marginal additional effort in tagging the data but will follow exactly the same process as they undertake today.
- For the financial services industry. It will significantly reduce interpretation, re-keying and manual exceptions. It will result in lower risk exposure to investor decisions based on incorrect information, (estimated at US$10 billion annually) and reduce need for manual processing (estimated at US$200 million annually). The lower costs and risks can reduce fees to investors.
- For investors. Investors can make decisions with guaranteed accurate information from the source document without third party manual interpretation. It will allow more response time as custodians and investment managers will no longer have to artificially compress deadlines to compensate for the manual processing of elective information. It also lowers costs, as transaction fees should be reduced. The solution is clear and attainable. By implementing ISO 20022, a unique ID and XBRL, we can eliminate significant costs and risks, and realise STP for US corporate actions.

With a successful implementation of the pilot in the US, we would like to see XBRL expanded into other markets. Certainly, we applaud the great strides that have already been achieved using XBRL within corporate actions, especially by Japan (Tokyo Stock Exchange) and by China (Shenzhen Stock Exchange). We want to further collaborate with the local markets to determine how to use XBRL as the backbone for corporate actions reporting on a global basis.

XBRL Revolution

Reducing Risk for Corporate Actions

"The benefits to the industry will be significant, as the tagging of information at the source with XBRL (and then aligning the data with ISO standards) will fundamentally change corporate actions. Issuers will be assured that the intent and content of the originating offer are clear to the investor. Financial intermediaries can significantly reduce the levels of interpretation, re-keying and manual exceptions, and investors can make decisions with guaranteed accurate information. The costs and risks now absorbed by the industry will disappear."

— Brett Lancaster, DTCC Vice President

Join Brett Lancaster for the Tuesday, 15 September SIBOS session at 14:00. *Topic: XBRL and SWIFT join forces to improve transparency and increase automation.*

www.dtcc.com

Transforming Data into Intelligence

By Deborah Culhane, chief operating officer of Fidelity ActionsXchange

With all the recent talk of standardisation, XBRL and 'at source' data, one would think that the magic formula for flawless corporate action information is well within our grasp. Unfortunately, none of these proposed remedies is the industry's Holy Grail. Corporate actions are inherently prone to error, with mistakes happening even at the source. In the age of increasing complexity, it is enrichment, analysis and interpretation that converts raw data into intelligence firms can use to gain a competitive advantage and reduce inherent risks.

For organisations already facing resource constraints, the analysis of corporate action announcements presents a challenge. It is a deeply involved process that requires a unique skill set, local market contacts and a wide breadth of knowledge and industry expertise in order to understand the nuances of each event. With global corporate actions volumes continuing to rise, data gaps and discrepancies are all the more common, further increasing the need for human touch.

Some recent examples from ActionsXchange's own in-house analysts underscore the need for knowledgeable industry experts to compare data from multiple sources and take corrective actions:

- Insignia Energy announced a merger with Grey Wolf Exploration, which involved both common and restricted shares. Information received from vendors only referred to payments the common shareholders would receive on effective date. Through a comprehensive research process, which included speaking with the CEO of Insignia, our analysts were able to determine that the holder of cross border restricted shares (144A) would also have their shares exchanged for new Insignia Energy common shares on effective date. Subsequently, we were able to notify our clients, providing them with information that was both timely and accurate. In fact, most single source providers and corporate action vendors still have not resolved the discrepancy within this announcement.

This solidifies the fact that a multi-sourced solution minimises the risks associated with corporate actions processing for financial institutions.

- Information on the Street indicated that Citigroup was poised to offer an exchange opportunity to holders of its preferred stock. In early June, when enough information was published in the market, our analysts created these events and using a combination of state of the art technology and our internal research processes. ActionsXchange's ability to aggregate more than 100 sources allows us to provide clients with initial notification well in advance of most other providers.

The data provided allowed clients to swiftly act upon the most up to date and relevant information.

- ActionsXchange proactively monitors all global markets including Asia and emerging markets for any media releases and news that may impact corporate action events and expose our clients to risk. Recently, the Taiwan market was closed because of typhoon Morakot, which devastated the country. This market closure resulted in the shut down of all trading, settlement and foreign exchange activity. We quickly alerted our clients and appropriately adjusted all previously announced corporate actions, again minimising risk for their organisations.
- European markets are working to harmonise their corporate action processes and simplify cross border trading. Switzerland is following the process adopted by others, introducing record date procedure for all mandatory distributions. As such, effective November 23, 2009 record date will be calculated as ex-date plus two business days. ActionsXchange's database was designed with the flexibility to accommodate changing market specific rules.

This highlights the importance of combining business and local market expertise with robust and flexible technology to ensure the highest degree of accuracy within today's dynamic environment.

The above points clearly illustrate that, in today's volatile world, technology and data on their own are simply not enough. It is the powerful combination of analytical expertise, data and sophisticated, flexible technology that can minimise the business risk surrounding your corporate actions data. Choosing an event management solution that incorporates these three critical elements is the key to reducing costs, increasing productivity and meeting today's evolving regulatory and compliance requirements.

Fidelity ActionsXchange is a leading provider of flexible, technology driven global event management solutions for many of the world's financial industry leaders. Leveraging more than 10 years of unparalleled analytical expertise, technology and service, we offer award winning solutions that source, enhance, compare and validate corporate event announcements.

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The Right Data in the Right Place at the Right Time: The Challenge of Corporate Actions

By Paul Kennedy, European business manager, Reference Data, Interactive Data

Risk managers and back office teams work around the clock to understand and analyse their institutions' risk exposure, relying on the efficient processing of a range of corporate actions data in a timely manner. It is clear that corporate actions must play a prominent role when companies seek to reassure their investors that they are constantly monitoring the implications of events on the value of their portfolios. So how can these organisations acquire the reliable data that will support their trading operations?

As corporate actions teams strive to maintain an accurate appraisal of ongoing risk exposure, they have to contend with an ever increasing flow of information. New types of corporate actions continue to emerge, covering an array of instruments that have grown in complexity. Sophisticated structured products and packaged instruments have made defining exposure much more complex, as each corporate action could have an impact not just on the issuer's securities but also on bundled products that include the security. In addition, corporate actions that were previously considered simple, such as the announcement of a dividend, have been made more complex as shareholders are given the election to receive dividends in a variety of foreign currencies. Besides growing complexity, the volume of corporate actions data is expected to continue to increase in the future, and back office teams will be sorely pressed to keep it under control.

Automation and standardisation have both been identified as solutions to the increasing volume of data that needs to be processed. Automation services have developed quickly in some major financial institutions, but still need input from risk managers, as many corporate actions are open to interpretation or various elections. Standardisation has been strongly supported by the industry, with providers such as Interactive Data supplying corporate actions in ISO 15022 format as well as developing services to support the ISO 20022 format.

Interactive Data works closely with its customers and has made complexity and timeliness a high priority. Interactive Data offers:

- Breadth and depth of coverage: with a constantly growing universe of complex securities to monitor, corporate actions professionals need access to a broad range of data across asset classes. In addition, this data needs to be fully annotated. In the past, much of the data available has been limited geographically, but Interactive Data can address the need for consistent, global coverage.
- Timeliness: corporate actions are a 24/7 requirement. End of day data is now too slow for many financial services companies and clients are seeking more timely solutions, especially in the trading space and when analysing exposure. Interactive Data is continuously upgrading its services and is now moving towards near-time publishing capabilities.
- Flexible delivery: the data must be easily integrated into a company's existing systems. Interactive Data works closely with the industry to incorporate the latest standards and offers consistency of delivery in XML format.

Historically, corporate actions were firmly anchored in the back office, but recent market events have highlighted that firms need to have a greater understanding of how a corporate action can affect their risk profile. If firms are to demonstrate to the market and their clients that they are serious about risk management and analysing their risk exposure, the discussion about data management in general – and corporate actions data in particular – needs to be understood holistically across the organisation. Financial institutions are subject to reputational and financial risks if their corporate actions systems are ill adapted to the evolution of the market.

Interactive Data has decades of experience in gathering, updating, validating and delivering its award-winning* corporate actions data, covering multiple markets and instrument types, to financial institutions worldwide. The company is at the forefront of the industry, leading the way in integrating industry standards to deliver value-added data that is richer and easier to manage than traditionally-coded datafeeds.

** Interactive Data was recognised as 'Best Corporate Actions Data Provider' at the Inside Market Data / Inside Reference Data awards in 2008 and 2009, and 'Best Corporate Actions and Reference Data Provider' at the (UK) Systems in the City Awards 2009.*

Interactive Data Corporation (NYSE: IDC) is a leading global provider of financial market data, analytics and related solutions to financial institutions, active traders and individual investors. The company's businesses supply real-time market data, time sensitive pricing, evaluations and reference data for millions of securities traded around the world, including hard to value instruments.

www.interactivedata.com

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GETTING A FIRM GRIP ON GLOBAL CORPORATE ACTIONS

INTERACTIVE DATA'S CORPORATE ACTIONS service delivers timely, high-quality information on global corporate events throughout the business day . . . empowering you to effectively monitor events that impact the financial markets.

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- Flexible delivery platform allowing access to data in a variety of formats, including proprietary and standard ISO 15022, streamlining integration into your financial systems and applications

For more information go to www.interactivedata.com or contact +1 877 462 3843 (North America), +44 (0)20 7825 7800 (Europe), +61 3 9249 2000 (Asia Pacific), or email info@interactivedata.com.

Interactive Data: Helping you capture critical information to make informed decisions

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Bringing issuers into the standardisation fold

By Sophie Bertin, head of Asset Servicing and Custodians at Swift

The lack of standardisation of issuers' announcements is holding back corporate action STP and creating risks for investors and the intermediaries servicing their assets. How is this problem being addressed?

The inefficiencies created in the corporate actions process because issuers announce events in non-standard formats are well known. Much has been achieved during recent years through ISO standardisation and automation among financial intermediaries in the corporate actions chain, but until the issuers are fully on board with standardisation there will always be a crucial gap.

The good news is there are now initiatives under way to enable allow issuers to standardise announcements, while not creating an extra heavy burden to do so They are consistent with ISO, the globally recognised industry standard for financial messaging, and will support even more widespread adoption of this vital underpinning for true operational efficiency in the end to end corporate actions process.

What's the Problem?

Many of the challenges that beset the corporate actions process are a result of the complexity of delivering information from issuers to the ultimate investors. Currently, issuers do not generate announcement information in a standardised, electronic format. Many good reasons can be cited for them not to standardise, but the results are that the investors' intermediaries – such as the custodian banks – must manually generate electronic records containing the corporate event details that investors need.

Each of the many intermediaries and data providers is interpreting announcements to manually create data, often with variations. The outcome of this interpretation can vary widely, bearing in mind the complexity of many events. To reconcile the multiple versions of an announcement, the data messages from multiple sources go through a manually intensive scrubbing process. Besides the obvious inefficiency and delay of scrubbing by every receiver of corporate actions, inevitably some inaccuracy or misinterpretation remains, introducing the risk of not acting appropriately on an event, sometimes leading to very high compensation payouts.

The current practice of textual announcements introduces inefficiency and risk, negatively impacting processing costs and fees, investor satisfaction and market efficiency.

How Can it be Solved?

The multiple interpretation problem can be minimised if the industry standard is adopted earlier in the lifecycle of a corporate action or shareholders' meeting announcement.

It has been suggested that issuers have little to gain from getting involved – that the lack of standardisation of announcement information causes problems for intermediaries, but not for the issuers themselves. In fact, issuers tend to be unaware of the scope of downstream problems, especially the net impact on investors. If standardisation is achieved at the announcement stage, the intent and content of the issuers' corporate action can be communicated to the investor with no risk of misinterpretation or delay – and the issuer is not required to devote resources to answering queries about the event.

Since each issuer only infrequently announces a corporate event (four to six times annually), there is also a need for tools to help them quickly and easily align with industry standards.

How Close Could a Solution be?

Significant progress has been made when it comes to solutions to help issuers (and their agents) standardise. One is the ISO standard issuer agent messages developed for registrars to communicate with depositories, beginning with the new Euroclear Single Platform.

A technology gaining widespread adoption for corporate financial and regulatory reporting is eXtensible Business Reporting Language (XBRL). A new joint effort by SWIFT, the Depository Trust & Clearing Corporation (DTCC) and XBRL US is leveraging the success of XBRL as a technology to improve issuer-investor communications for corporate actions in the US. The approach also has global applicability, as both XBRL and SWIFT are international organisations, and there is a commitment to ensure alignment with global ISO standards. The effort is starting in the US, but will soon be replicated in other major financial markets.

How Does XBRL Empower Issuers to Standardise Announcements?

SWIFT, DTCC and XBRL US are working together to implement XBRL for corporate actions data in the US. Together, we are building a corporate actions XBRL taxonomy with data elements based on, and aligned with, the ISO 20022 repository elements. This will enable issuers to electronically and easily 'tag' data using off the shelf or open source software when preparing a prospectus. The tagged data can then be readily trans-

formed into an electronic, data driven ISO 20022 message for consumption and downstream processing, from intermediaries to investors.

Issuers get a straightforward, easy to use technology that will enable them to standardise announcements in a way that is aligned with and supports further adoption of the global ISO standards.

Intermediaries continue to use the ISO message standards and will be able to achieve better automation, for which they have invested for years.

The consistency and high quality of intermediary messaging will revolutionise investor participation in corporate actions and shareholders' meetings, enabling them to make decisions based on more accurate, more timely information. The gap that exists between the two communities today will be effectively closed when issuer-investor communications are standardised and automated from end to end.

This plan is strengthened by the expanding adoption of XBRL in the US as a result of the SEC mandate for its use for GAAP quarterly financial reporting. As XBRL adoption spreads globally, with mandated or voluntary adoption in dozens of countries for accounting and regulatory reporting, the corporate actions solution has a unique opportunity to be rolled out globally.

SWIFT is planning to work with XBRL International so that the taxonomy for corporate actions is available and functional internationally, in cooperation with local XBRL jurisdictions and securities markets. This will include markets in Europe, as well as Japan, Australia, China and South Africa.

End to End Standardisation: A Very Real Prospect

Solutions to standardise and automate the corporate actions announcement process are close at hand – and they build on, rather than conflict with, the huge amount of progress achieved so far within the financial industry using ISO messaging.

Are You Compliant with the EU Shareholder's Rights Directive?

Since August 2009, the EU Shareholder's Rights Directive (SRD) has been effective and is to be transposed international law in every state in the European Union. The SRD is designed to strengthen shareholders' rights by, among other measures, ensuring there are no impediments to participation in general meetings via electronic means.

The directive states: "Companies should face no legal obstacles in offering to their shareholders any means of electronic participation in the general meeting. Voting without attending the general meeting in person, whether by correspondence or by electronic means, should not be subject to constraints other than those necessary for the verification of identity and the security of electronic communications."

So, while the directive doesn't prescribe electronic voting or mandate member states to actively facilitate it, it does require the removal of barriers to electronic voting, making it clear that the ability to vote electronically is important for strengthening shareholders' rights.

How Can SWIFT's Proxy Voting Solution Help?

SWIFT's Proxy Voting solution combines SRD-compliant ISO 20022 messages with secure, reliable connectivity via SWIFTNet, and is the most robust option for industry adoption of electronic voting in EU member states.

The solution makes the support of electronic voting straightforward, by automating proxy voting information flows. Meeting notification, voting, confirmation and results dissemination messages are defined using ISO 20022 XML-based standards. The solution enables issuers, investors and all intermediaries in the proxy voting chain, including custodians, exchanges, central securities depositories (CSDs) and proxy agencies, to communicate in a fully standardised way, with all the security and reliability of SWIFTNet. This facilitates straight-through processing (STP) for an activity that has historically been largely manual.

Is the SWIFT Solution Fully SRD Compliant?

The latest release of the ISO 20022 Proxy Voting message standards fully complies with the SRD. A complete set of documentation for this new release of messages is available.

Development of the latest message standards was done with full industry participation and included contributions submitted by EuropeanIssuers, the European Central Securities Depositories Association (ECSDA), the European Credit Sector Associations (ECSAs), European Banking Federation (EBF), European Savings Banks Group (ESBG), European Association of Cooperative Banks (EACB), European Securities Forum (ESF) and Federation of European Stock Exchanges (FESE).

The use of internationally recognised ISO standards represents a clear strategic approach to implementation of the directive. ISO financial messaging standards have been clearly identified as a vital strategic solution for the elimination of cross border processing inefficiency within Europe, notably in respect of the removal of Giovannini Barrier 1 for cross border securities clearing and settlement in the EU.

By combining ISO standards with the most secure and reliable network for communications, SWIFT's Proxy Voting solution also represents the best technical solution for compliance with the spirit of the SRD. Industry participants and member states themselves should consider how the solution can best be implemented, to ensure robust and optimum long term SRD compliance.

Corporate Actions Data: Automate, Process and Synchronise

By Rick Enfield, product business owner at Asset Control

The processing of corporate actions has long been one of the most complex and error prone areas of operations management. Acquisition, posting and monitoring all have their unique challenges caused by a variety of factors such as lack of uniformity, the myriad of different types of events, the need to monitor progress on voluntary events and the impact of corporate actions on compliance, trading and settlements. While the investment industry has made great strides in corporate actions processing, the vast range of possibilities continues to hamper efficient management. A cohesive approach to managing the underlying data and ensuring synchronisation across systems is critical to an organisation's ability to control errors and costs, make better decisions and meet the demands of clients and regulators.

Getting the Data

Acquisition of corporate actions data can come from a variety of sources including exchanges, custodians, general data providers and specialist providers focusing solely on corporate actions. Regardless of the data sources, a firm must ensure the completeness of the gathering process. Are there enough accurate sources of data to ensure completeness? Are there processes in place to ensure that reported information can be delivered to the appropriate places within the organisation for accurate processing?

Evaluating Sources and Delivery

Evaluating the reliability of these sources determines whether or not additional sources are necessary. Additionally, the way information is delivered will have a tremendous impact on efficiency and accuracy of processing. Automating as much of the process as possible ensures that the information received is processed correctly, in a single instance.

Automation and Synchronised Data

Automation can provide a firm with much of the functionality they need for effective processing. The many steps in the process include:

- Gathering data in a format that can be consumed automatically.
- Matching data from multiple sources to ensure accuracy of information, completeness of the data and processing of the actions one time.
- Timely processing of the action against firm positions and open orders.
- Monitoring of the responses and workflows in voluntary corporate actions.
- Taking into account compliance implications of these events.

Different systems vary in their corporate actions processing capabilities. Consideration must be given to properly synchronising corporate actions data across the different systems. For example, 'as received' corporate actions processing could cause differences in positional and compliance views if some systems can only process corporate actions in an overnight, T+1 manner. In a 24x7 environment, where disparate systems vary in their capabilities, this becomes even more complex.

Processing Data, Just Once

The critical systems relying on corporate actions are those for decision management, trading and compliance. Ensuring that a method exists to synchronise those systems as close to real time as possible – with data processed on one occasion – is critical to an organisation's ability to control errors. Even very simple, common corporate actions that are processed late can cause many types of difficulties, including:

- Portfolio alignment decisions based on incorrect quantities or prices.
- Compliance errors from incorrect exposure.
- Trading errors from incorrect quantities.

Most modern systems have robust corporate actions processing capabilities assuming that the data can be presented to them in a consumable manner. A firm must ensure that these capabilities are clearly understood from a timing perspective to provide the proper control. A double processed event is just as much of an error as an event not processed. Positional quantities that are not properly synchronised across an institution will result in lack of confidence in information, and will likely cause many diverse, inefficient and manual control processes over the presented information.

Voluntary corporate actions require a robust monitoring process to manage the lifecycle because there may be different actions desired by different parties, and the timing could be delayed by the desire to not 'show my hand' on the response. The monitoring process needs to ensure accuracy and completeness of the original information delivery and the response on a timely basis. It also needs to ensure that the appropriate individuals are responding to the request.

The Data and the Process

Corporate actions processing can be complex for any organisation. The ability of a firm to acquire comprehensive data in a manner that ensures quality and timely delivery is critical. Equally important are the procedures governing automated processing and a keen understanding of the different system capabilities to process data in a way that ensures synchronised results. This is perhaps the hardest task for firms with many systems and geographic locations. A consistent, unified method for processing corporate actions data and synchronising information across the organisation is imperative to reducing costly errors, supporting decision making and meeting increasingly stringent reporting requirements.

AssetControl

Transforming Data into action

Enhance corporate actions efficiency.

Accurate, timely data is key to making your corporate actions processing more efficient, while overcoming complexity and errors. Asset Control helps your firm automate, process and synchronize data to ensure consistency across the corporate actions systems that drive your decision management, trading and compliance.

Our data management approach lets you process data just once, and synchronize it in near real-time so you can control errors and costs, make better decisions, and meet the demands of clients and regulators.

This year, our team will be delighted to see you at **SIBOS.**
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Corporate Actions Processing: A Competitive Advantage?

By Markus Heer, managing director of WM Datenservice

For a long time, the processing of corporate actions – alongside other reference data topics – has been the classical must have task within financial institutions. It is better worked out and for lower costs from year to year but nobody above the operational manager ever bothered with its nuts and bolts, let alone that it would have been a topic on the board level. Now, in the light of recent events, it might well be that the processing of corporate actions was more of a sleeping beauty – while still a dormant one.

In times when issuers behaved like the traditional financial institution or larger corporate, most of the financial events or corporate actions have been nicely predictable. Challenges in most cases occurred when rates had to be fixed, or different custodians in different markets with different currencies consequently came up with different rates and payments. Thus requiring the back offices in banks to match and compare data vendor information with their own custodians. While there are many software vendors in the market to support such processes (for example, Asset Control, GoldenSource and AIM, amongst others) it always remained a highly manual effort, requiring a lot of knowledge to dig out the 'right' information. And this 'right' information would then still differ from the 'right' information of the financial institution around the corner, as they might use different custodians, making the idea of a global 'golden copy' an illusion.

With standardisation and industry initiatives underway, like the Corporate Actions Joint Working Group or the current and ambitious European Central Bank plans for a global reference database, markets and market practices are expected to converge. Hence, many obstacles and complexities will vanish over the next few years. Yet it is not to be expected that this will happen in the short term. Too many of these local market practices are well established and hard coded in IT systems and people's minds.

So, the answer can only be to develop skills to be able to handle these complex structures and procedures using highly experienced people and a flexible IT infrastructure and tapping into as many reliable sources worldwide as necessary (and affordable). Another option is always to outsource. For example, the German banks have decided long ago to outsource most of these efforts to the data vendor WM Datenservice, which produces a golden copy for the German market. Also, still not all data about corporate actions might be correct, but the market benefits from the bilateral feedback of all the financial institutions that try to help to improve the data quality by supplying their data in case it differs from the information provided by WM Datenservice.

This is clearly a cooperative model that provides a competitive edge for the whole German market, as the information gathering and cleansing burden is shared amongst the industry through one central data provider. Other markets find it far more difficult to sort out their own reference data riddle in all financial institutions unilaterally.

For the given reasons we cannot expect the efforts required for corporate action processing to diminish over the next few years. Quite the contrary is the case: under the current market circumstances, critical market events like defaults, late payments or shortfall in payments need immediate attention and action from the market participants. A delay of this information to reach the right people within a bank (allowing them to stop a payment or freeze a bank account) caused by an extensive or inefficient data acquisition and cleansing process can - and eventually will - surely cost much more than the whole data costs of one year.

It is about time for financial institutions to understand that corporate action processing is not only some boring must have exercise, but it is becoming more and more crucial for the whole institution, with the potential to severely harm the banks' balance sheet if not carried out correctly and timely enough. At the same time, it might be wise to consider cooperative solutions to improve the overall data quality in a regional financial market, making use of data providers that have the business models to support such a utility like approach.

It is not very likely to win new clients with bulletproof corporate action data. But certainly a whole market could lose a lot of money if the information is flawed or inconsistent in those few events where something went completely wrong and only a few did notice. It would certainly benefit everybody to contribute information and make their own insights available to the community. While superior own data might not bring a competitive advantage to the single financial institution, bad data clearly harms a whole market and all of its participants.

Reference Data Review Panel Debate: Corporate Actions

Martijn Groot, director of market strategy, Asset Control

Brett Lancaster, vice president, DTCC

Paul Kennedy, European business manager, Reference Data, Interactive Data

Paul Phillips, business development consultant, SmartStream Technologies

Sophie Bertin, head of Asset Servicing and Custodians, Swift

Laura Fuller, data consultant, SIX Telekurs

Markus Heer, managing director, WM Datenservice

Laura Pollard, executive vice president, Fidelity ActionsXchange

Our panel of corporate actions experts debate the impact of the financial crisis and the ensuing regulatory backlash, progress towards standardisation and the state of the competitive environment.

How has the current market environment impacted the corporate actions space with regards to risk management?

Kennedy: At a time of high volatility in the financial markets, firms need to manage risk through an in-depth understanding of their exposure. Two requirements have come to the forefront: timeliness – as firms seek to ensure that they always have an accurate view of the instruments they are trading – and breadth and depth of coverage – as companies need a global perspective, covering all types of instruments.

Groot: In general, there has been increased awareness of operational risk and the potential for failures in processes due to poor corporate actions information. We see a lot of work on tagging of corporate actions using XBRL, and on both sides of the Atlantic there are calls for standard security reference data utilities. The tolerance for poor data or freely formatted data continues to decrease. For custodians, the range of services they provide have risen significantly to include investor servicing tasks such as qualified intermediary and investment reporting and the handling of complex services including OTC derivatives and collateral management. Keeping up with these new service demands increases the risk and data requirements for custody organisations. Hence, the effective integration of risk management into their services is imperative for custodians.

Lancaster: With the current market environment, the US market has seen an increased focus on seeking out measures, any measures, which can reduce risk and improve transparency. We are hearing this same message from customers and from regulators. Within the corporate actions arena, we are being asked what we can collectively do to actually solve this issue, rather than just continue to mask it by throwing more and more people at the problem. Essentially, the market environment has re-catalysed the demand, 'Enough with the re-keying from paper documents; enough with reports and recommendations; what needs to be actually done to achieve automation and STP?' I think that, finally, through a culmination of factors, we now have the answer, and we have already started the work within the US market.

Phillips: The financial market meltdown has led regulators to ensure that risk management is firmly on the radar for all financial institutions. Recognising that corporate actions is consistently regarded as the most risk intensive component of back and middle office processing, this focus has placed corporate actions firmly in the spotlight for a multitude of firms, many of whom acknowledge that the growing impetus to automate is a direct result of the current environment.

The risk of a loss arising from corporate actions processing traditionally occurs during the event capture and election management stages of an event. Considering that a handful of vendors have developed specialised solutions to comprehensively eliminate that risk, the current environment is ideal for back and middle office departments to present a persuasive business case to senior management.

Bertin: High levels of manual intervention in the corporate actions process create high levels of operational risk. As volumes of corporate actions increase, as we have seen recently, so does the risk of errors and the level of operational risk. It is well known that financial institutions set aside considerable sums of money to cover potential corporate actions losses, and that actual losses related to mistakes in corporate actions processing are a frequent occurrence. In the current risk averse market environment, there can be less tolerance for corporate actions related risk and losses, and as a result we are seeing an increased interested in standardising and automating the corporate actions process to eliminate not only operational costs but operational risks as well.

Fuller: The problem in the corporate actions arena has been the difficulty in quantifying the risks involved. Everyone has heard horror stories involving huge losses, but these are not publicised in detail. People know the risks are high, but it is only lately that tackling the issues has become a reality.

As data vendors, we have seen a variety of responses to the increased risk factors in the current environment. SIX Telekurs has collected an increasing number of complex corporate actions, as companies try to raise capital and restructure debt. Corporate actions volumes have grown 81% since 2006. There has also been a marked growth in the number of data queries to our helpdesk and data consultants, as clients focus more closely on the accuracy of the data they are receiving to try to mitigate risk. Last but not least, there has been an increase in invoice queries, as clients ensure they are getting the best value for money from their data providers.

Heer: Information about corporate actions has become one new focus area in risk management. Whereas in the past, most corporate actions where more or less predictable, as most information was already available anyhow through the news or because the corporate action was a predictable event, in the current times, some of the events (like company defaults and delayed payments of interest) are new information. In the case of delayed or defaulted payments, action has to be taken immediately to avoid negative impacts on the owner firm. So the processing of corporate actions has emerged from a pure back office end of day issue to a near-time middle office, or even front office, subject.

Pollard: In the current environment, market trends and investment strategies are changing at a rapid pace introducing new risks and adding an unprecedented level of complexity to not only corporate actions, but the related or underlying instruments that an event can impact (options, warrants, cross border restricted securities). This has increased the focus on risk management exponentially. Many firms are finding that they are ill equipped to handle the deep level of analysis and research involved in processing this new breed of complex corporate actions and are looking to market experts as partners in managing risk. Data remains a key component, but access to trusted market expertise and guidance is increasingly important within the space.

Are firms continuing to invest in corporate actions automation? What are the main drivers for this in the current market conditions?

Fuller: SIX Telekurs has observed that our clients and prospective clients are still going ahead with corporate actions projects, even under current conditions. This shows that the drivers are strong. However decision making is often delayed, reflecting the desire to get the project fully planned and researched. The money that is spent needs to be spent well, with quantifiable results.

The need for improvement in automation is certainly a key driver, as more and more software providers maintain hosting systems that can take away some of the pain from companies and provide them with 'golden copy' corporate actions. Automation in the long term will save a business money and it is very short sighted to ignore this due to current liquidity pressures.

Competitive pressures are another driver towards automation. There are so many industry bodies discussing the benefits of automation and standardisation in the area of corporate actions that firms are probably convinced that everyone is doing it and they will be left behind.

Kennedy: Although automation has helped firms to deal with the increasing flow of corporate actions, the complexity and variety of the data available means that there is often a strong need for human intervention. While automation is still desired by most firms to help manage the risk associated with corporate actions processing, the actual purchasing of solutions may have been delayed by the financial difficulties that firms are presently facing. Major investment decisions will be made later on, once the market has calmed and companies have better visibility of how they want to structure their back office operations.

Heer: Larger firms still are undergoing back office optimisation projects, of which some have corporate action automation as one of the objectives. Nevertheless - although many success stories exist and the pressing need for faster and more accurate information will be on the agenda of every operations manager - corporate action processing is still not high up on the priorities list of banks' budgets. It seems that reference data, as such, is still not perceived as a differentiating - if not crucial - factor in the financial services business. Where more initiatives can be seen, is in the area of Swift (MT564) integration to allow a more optimised handling of custodian information.

Pollard: In light of difficult market conditions and competing corporate priorities, spending on IT initiatives continues to be slow. From ActionsX-

change's perspective, financial firms are increasingly interested in projects focused on key priorities including risk management and operational controls due to increased internal scrutiny and external regulatory demands.

Now more than ever, firms are being faced with directives to reduce costs, increase efficiency and minimise risk. The area of corporate actions, in particular, has received increased focus because of the highly manual and risk prone nature of the data.

Bertin: If increased use of standardised corporate actions messaging is an indicator of continued investment in corporate actions automation – and I think it is – then yes, firms are still devoting resources to improving corporate actions STP. At Swift we have seen double digit percentage growth in corporate actions messages being sent over our network, and this is continuing even in 2009.

The main drivers for continued investment in standardising and automating corporate actions processing are to reduce risks and to reduce costs – both more crucial than ever given today's market conditions.

Phillips: Yes, firms are definitely continuing to invest in corporate action automation solutions. Although many firms delayed IT projects at the peak of the financial market turmoil, interest and investment in corporate actions continued.

Current market conditions appear to have given more weight to the historical business drivers for automation: to reduce operating costs, improve customer service and to reduce a firm's exposure to risk. With consolidation of financial institutions on a global basis, there is surmounting pressure by investors and customers for firms to become more efficient and thus more competitive.

Automation solutions enable corporate action departments to reduce headcount and also to reduce the amount of time it takes to process each event. Whilst this provides an immediate ROI, it also permits firms to disperse information to their clients, both internal and external, far more quickly and accurately.

Regulators, on the other hand, are working towards ensuring financial institutions improve their risk management practices, in light of the sub-prime collapse. Firms can no longer afford to have lax risk management practices, and this alone is a fundamental driver for corporate actions automation.

Lancaster: Yes, we see that firms are still continuing to invest in corporate actions automation, both IT tools and data. However, there seems to be two almost opposing drivers at work. On one side, firms are being asked to 'do more with less' - budgets are being cut, or subjected to additional scrutiny by senior management. The result is centrally negotiated contracts that achieve purchasing leverage, and the inevitable longer procurement cycles. On the other side, firms are realising the need for the efficiencies of enterprise-wide solutions, especially considering the continual mergers and acquisitions between companies. The overall result is that corporate actions continues to be a priority, but the IT tool, or data, needs to convey a clear and positive ROI.

Groot: The main drivers in the current market are to keep costs down. Firms continue to invest but a lot of benefits can only be reaped by standardisation of descriptive and processing information. This covers both the sourcing of corporate action information, as well as the processing where corporate action management for different instructions needs to be harmonised for many event types. This is especially relevant for the EU, which seeks to harmonise the clearing and settlement landscape.

How is greater European harmonisation in the clearing and settlement environment impacting corporate actions?

Phillips: One of the most prevalent problems and one that lends itself significantly to increased processing risk within the corporate actions processing lifecycle is position management, particularly the capture and reconciliation of open transactions.

When position breaks occur on an asset the problems caused can be far reaching, from the incorrect pricing of positions to the failure to account for shareholdings on voluntary events in corporate actions. The failure to protect a position can potentially result in financial loss making good an entitlement on a corporate event.

Most position breaks are caused by settlement related issues with the failure to record the settlement of a transaction being the most common factor. However, if left unresolved this position break can escalate to the point where unravelling the problem becomes almost impossible.

When processing a corporate action it is imperative that the processor identifies and resolves any positions breaks well in advance of the critical date of the event to ensure that all eligible shareholders are identified and that their traded positions are correctly reconciled.

A greater level of harmonisation of the clearing and settlement environment in Europe will significantly increase the accurate trade settlement percentages and will have the potential to significantly decrease the number of position breaks caused by settlement failure.

By improving the settlement process, either through centralised clearing platforms or by more rigid internal settlement management each organisation has a clearer view of their open transactions with much greater granularity on the potential failures before they occur. This, together with a robust reconciliation process across all organisations creates an environment that is able to see the issues and resolve the issues across all parties as quickly as is reasonably possible.

This, in turn, can significantly reduce the number of position breaks and also reduce the complexity required in resolving these breaks should they occur and it is this that helps the corporate actions processor identify and resolve

position breaks quickly and effectively eliminate the risk caused by them.

Fuller: The implementation of the NYSE Euronext Single Order Book and the Euroclear Settlement of Euronext-zone securities project I view as progress. The most important development is that the industry has made a joint effort to work together and to improve systems. From the outside it would seem that the resultant harmonisation of legal systems and corporate actions rules should greatly reduce costs and improve efficiency in the issuance and processing of corporate actions. Further advancements in harmonising European corporate action rules are likely to be far in the future, but the initial steps are promising.

Pollard: Reforms focused on the harmonisation in the clearing and settlement environment have long been underway in Europe. Now greater regulatory attention in this area has increased the sense of urgency across all post-trade activities including corporate actions.

A strong focus on risk management, coupled with the need to drive down costs, is leading to a rise in organisations reinventing their approach toward operational processes such as corporate actions.

Kennedy: The European Credit Sector Association and the European Central Securities Depositories Association are responsible for leading the process of the removal of Giovannini Barrier 3, which relates to the differences between EU member states in the rules governing corporate actions, beneficial ownership and custody.

While Giovannini called for the harmonisation by the market of the variety of national rules, information requirements and deadlines relating to this barrier, work on the elimination of this barrier still has a long way to go before harmonisation will be completed.

Groot: Ideally, the issuers or their agents would take the burden of supplying standard information to holders of securities and the various CSDs. At a minimum, there should be standardisation in the mark-up of processing instructions across the various players in the clearing and settlement environment to allow interoperability in the Target2-Securities (T2S) context. Adoption of proposals to harmonise transaction lifecycles, payments and corporate action processing could reduce cross border clearing and settlement costs in Europe.

Bertin: Efforts to improve harmonisation across the European markets are a significant driver for change in the corporate actions arena. Improved efficiency in corporate actions processing has been recognised as a prerequisite for success for these harmonisation efforts, and while a big chunk of the focus is around business flows, improved standardisation and automation of the resulting data flows is also seen as a necessary prerequisite to ensure the sought after efficiencies are realised. Examples of harmonisation led drivers for improving corporate actions processing include efforts to remove Giovannini Barrier 3 and the move to the Euroclear Single Platform – and Swift and ISO messages are positioned to support corporate actions STP in line with both.

Lancaster: With the move to T2S and harmonisation across Europe, greater focus than ever is being paid to the importance of standards and best practices. There is recognition that the harmonisation, standardisation and integration of post-trading activities, including corporate actions, remains paramount, and that immediate focus is on achieving the recommendations laid out by Giovannini, the Group of Thirty and CESAME. Now that the various European industry forums are under a single coordinated group, the Corporate Actions Joint Working Group, we believe that the right structure is in place to address the issues.

Heer: European harmonisation will drive the need for a more aligned corporate action handling across Europe. Today, many different local nuances exist, making the handling of international corporate actions a tricky exercise. More harmonisation in European clearing and settlement will potentially put more pressure on the market participants to come to solutions for the convergence of those nuances. Especially with initiatives like T2S underway, it can be expected, that on a next stage of the project, corporate action processing will be added if, by then, the industry has not solved the corporate action riddle themselves.

How has the work of the Corporate Actions Joint Working Group (CAJWG) and the Securities Market Practice Group (SMPG) affected/influenced the corporate actions area recently?

Lancaster: The CAJWG, which represents a number of EU industry bodies, is defining a recommended set of market standards for corporate actions processing. As such, we fully support their efforts. We are also encouraged that the CAJWG is asking for input on their paper from non-EU markets, as we believe that market practice dialogue is necessary at the global level. Other industry groups are also active, including ISSA, SMPG and ISITC. We believe that the time is right to bring all the right global players (and the industry groups that support them) to the table - across financial services firms, infrastructure providers, standards organisations, issuers and regulators – to tackle corporate actions, once and for all.

Heer: It can be seen that most recent developments are driven by the named working groups. Here, clearly, the industry found a forum where experts can exchange information and work together to solve and overcome many of the obstacles for greater harmonisation.

Phillips: The CAJWG has been working hard to define guidelines around

standardised market practice for corporate actions processing and has specifically called for the harmonisation of settlement cycles.

By adopting such practices this would significantly improve cross border processing of all events and virtually eliminate the manual claims processing required around unsettled transactions on record date, as well as helping to significantly reduce potential position breaks across the key dates of the event.

In a recently published report, the CAJWG laid down these fundamental guidelines for overcoming barrier three as laid down in the Giovannini report. These guidelines, if adopted, could offer significant benefits to processing in the euro zone. The SMPG has worked very hard for a number of years to define and influence best practice for processing in over 30 markets worldwide. With these guidelines now laid down, the SMPG could make use of these and press for more cross market standardisation in the corporate actions processing space.

Bertin: The CAJWG is focused on eliminating Giovannini Barrier 3 (relating to impediments to European clearing and settlement efficiency created by the corporate actions process) by introducing standards for the end to end operational flows throughout the corporate actions chain. This is a very important component of European harmonisation efforts. ISO messaging – and Swift – are ready to support the implementation of these operational standards in practice, by standardising and enabling automation of the underlying data flows.

The SMPG's role in making standards across the securities market fit for purpose is absolutely vital, and this is no less true for corporate actions. Unless all participants abide by market practices, different conventions in different national markets and the room for interpretation within message formats could seriously dilute the benefits of corporate actions standardisation.

A particularly important contribution to corporate actions standardisation made by SMPG is the Event Interpretation Grid (EIG), which clarifies the use of mandatory/voluntary indicators and options across the more than 60 event types defined in ISO 15022 and across many markets– and identifies preferred practices and deals with exceptions for many markets. The EIG is at the heart of Swift's Simulation Testing and Qualification Service (STaQS), a testing tool enabling firms to self-test the adherence of their corporate actions messages to market practice guidelines.

Kennedy: The CAJWG has helped to drive the continual evolution of standards for corporate actions. The group recently released the results of its standardisation initiative, aimed at defining each category of corporate actions in the market in order to allow for the harmonisation of processing rules. The proposals have been drawn up and sent out to the various national market practice groups (NMPGs). The scope of the project encompasses all corporate actions and all parties in the corporate actions processing chain, including issuers, market infrastructures and intermediaries. At the same time, the SMPG has explored the business requirements of these standards and has supported the evolution of the handling of corporate actions.

Fuller: The work of the SMPG has made great leaps forward over the past two years in its efforts to 'standardise' the ISO 15022 standard. Interpretation of data received has long been a big issue in the corporate actions world. Experienced corporate actions staff must be held on to at all costs to ensure the announcements from issuers, their agents, vendors and other intermediaries are dealt with correctly. The ISO 15022 standard, in whose working group SIX Telekurs was heavily involved, undoubtedly brings improvements to this area, but there is still room to do more. For example, the standard itself and the fields within it are also open to a level of interpretation, for example, it is possible to show the payment date for an event in up to three different places in the ISO 15022 corporate action announcement message.

Pollard: Through our involvement with ISITC, we keep current on these two important industry groups who continue to work behind the scenes to foster collaboration and give a voice to all market participants within the corporate actions space. Currently, the focus is on fine tuning the 2010 Swift release by incorporating feedback from user firms and vendors in order to ensure that critical needs are met and that the release is implemented seamlessly. Also on the agenda, is the development of processes for the co-existence and ultimate transition between ISO 15022 and 20022. The groups are integral in developing timelines and best practices that will anticipate and meet the challenges that arise.

Groot: This work has focused on identifying the best future state for practices in corporate action processing rules (covering distributions, reorganisations and transaction management) and in optimising the supply chain by eliminating intermediaries in the flow of information from issuer to investor. XBRL or ISO standards have to play a large role here.

How will the move towards XBRL for financial reporting in the US impact the area of corporate actions?

Kennedy: The implementation of XBRL for financial reporting in the US will mean that issuers will now be making extensive investments in XML systems, similar to what they had to do when EDGAR was introduced 10 years ago. These investments could be leveraged to meet any future requirements around corporate actions reporting. It's worth noting as well that although the US is ahead of Europe in the implementation of XBRL, the world leader in this regard is China.

Lancaster: XBRL will bring fundamental change to the collection and dissemination of corporate actions information. Currently, issuers fulfil their obligation by sending out a press release, prospectus or legal filing in free text, without recourse to formal standards or market practice. This means that each and every financial services firm along the chain from issuer to investor has to interpret and re-key the data into their own systems, causing problems of accuracy, timeliness and event misidentification. XBRL enables issuers to electronically 'tag' data from within Microsoft Word. The issuer, as they write the press release or prospectus, follows the same process as they do today, except that they tag the key data. The tagged data is embedded within the saved .pdf or .doc file, and we will make sure that the XBRL taxonomy will be seamlessly aligned with ISO industry standards. Most importantly, we are already working with the SEC to determine how 'XBRL for corporate actions' can follow the same path as 'XBRL for GAAP quarterly financial reporting', where the regulatory mandate came into effect on 15 June 2009. XBRL will be a quantum leap forward. DTCC has joined forces with Swift and XBRL to make it happen.

Groot: This depends on how much the use of XBRL will be extended. Since XBRL is required for financial reporting, and is consequently a standard used by issuers, it would seem logical to also require it as the vehicle for issuers to report on the issuance of new securities and corporate action information in general. XBRL US, DTCC and Swift are setting up a taxonomy for US corporate issuers to tag corporate actions information and to help move from XBRL to ISO 20022 messages in the information supply chain. The adoption of XBRL tagging could help corporate issuers in their reporting requirements, as well as help custodians in processing corporate actions if there is a seamless translation from XBRL to ISO 20022.

Phillips: Corporate actions processing, and STP in the corporate actions space generally, has greatly benefited from the structured format of ISO 15022. The structure of the message format and the message lifecycle endorsed by Swift significantly improved the flow of information from the issuer to the investor.

With the SEC mandating that public companies must file financial reports in the XBRL format, this paves the way for organisations to widely adopt the ISO 20022 messaging standard, which allows for the transfer of corporate actions information in an XML tagged format.

This opens up the US market to wider adoption of the ISO standards that have so benefited corporate actions processing in other global markets.

Bertin: The SEC's favouring of XBRL in the US market creates an important opportunity in the corporate actions area – an opportunity to really engage the community of issuers and issuer agents in the corporate actions STP process.

Though terrific progress has been made in standardisation and automation among financial intermediaries in the corporate actions process, while the issuers of corporate actions continue to disseminate event information in disparate, manual, non-standard formats, there will always be re-keying further down the chain, leading to errors, creating extra risks and costs, and preventing full STP from being achieved.

The rise of XBRL creates an opportunity to address this issuer challenge, starting in the US but also globally – and to do it in a way that is completely consistent with the ISO standards that have been so well adopted further down the processing chain.

As we announced earlier this year, Swift, DTCC and XBRL US are working together to implement XBRL for corporate actions data in the US. We are building a corporate actions XBRL taxonomy with data elements based on, and aligned with, the ISO 20022 repository elements. This will enable issuers to easily electronically 'tag' data using off the shelf or open source software when preparing a prospectus or other form of corporate action announcement. The tagged data can then be readily transformed into an electronic, data driven ISO 20022 message for consumption and downstream processing from intermediaries to investors.

In short, issuers get a straightforward, easy to use technology that will enable them to standardise announcements in a way that is aligned with and supports further adoption of the global ISO standards.

I'd like to make it clear that although currently this initiative is focusing on the US, XBRL itself is making inroads into other markets around the globe, including China, and this initiative can be extended to those markets as well. XBRL is already used for financial reporting in major countries around the world, so this use for corporate events announcements can be seen as a natural extension of the use by issuers. In addition, Swift fully supports other initiatives under way to extend standardisation and automation to the issuer and issuer agent communities – including the ISO 20022-based messages developed by Euroclear.

Fuller: The impact of XBRL will depend on the appetite of the market. There is a move towards persuading corporate actions issuers in the US to use XBRL to tag the issuing documents, in addition to using it for financial reporting. The participation of corporate actions issuers in data standards is vital for further progress. This would remove interpretation issues from the start of the process and greatly improve STP rates for corporate actions. The XBRL taxonomy will be aligned with ISO 20022 and, as such, will be more easily understood and used by those who are used to ISO 15022 or ISO 20022. If XBRL can become widely accepted in the US by issuers and other market users of corporate actions communication, this is then more likely to spread further. However, there is still a long way to go. Issuers do not yet have standardisation in corporate actions on their radar.

Pollard: Data tagging will provide a greater level of consistency and facilitate the transfer of the information in a more timely manner. We cannot, however, look to XBRL to be the ultimate solution to the issues that plague the corporate actions space. Data is still just data. Failure to add value by analysing, validating and enhancing the data in order to create intelligent information will continue to pose a risk. The human element of interpretation will always be necessary, particularly when dealing with such complex data.

Additionally, migration timeframes will remain a challenge. Much of this will rest upon whether the industry can get the issuers on board with supporting XBRL.

How has the current market environment impacted the vendor community? There appear to be a number of new entrants in the space, can the market support these?

Fuller: In the current climate, we see that clients are more inclined to query data with helpdesks as they aim to ensure the data is of best quality. Clients are also careful to ensure that invoicing reflects the data they actually receive and the best value for money. Clients are also checking their internal systems and requesting refresh feeds to ensure their basic data is fully up to date. These are all services that are fully supported by SIX Telekurs.

New data vendors tend to focus on niche activities. The market data collection and distribution industry is concentrated in vendors who have large scale data collection operations, such as SIX Telekurs, and can thus benefit from economies of scale. SIX Telekurs concentrates on data quality with collection locally on a worldwide basis to ensure local knowledge of the corporate action environment. This is only possible with long experience, so new entrants can only really be in the market for very specialised areas.

Kennedy: The need for accurate and reliable corporate actions data is stronger than ever, particularly in light of the liabilities that companies can face if found to be lacking in appropriate risk management systems. The increasing importance of corporate actions data is reflected, for example, through the number of software vendors working to provide solutions. Heightened competition can stimulate innovation in this area, which will be of benefit to the entire industry.

Groot: There is still a lot to gain as far as optimising the sourcing, integration and processing of corporate actions is concerned.

Pollard: The corporate actions space has been redefined. Today, our clients are facing cost pressures and regulatory challenges unlike anything they have ever experienced. That said, there is a growing need for increased value for the spend. Providers are expanding traditional corporate actions solutions models in order to meet the needs of the redefined space. Case in point, ActionsXchange recently began including regulatory filings information within our corporate actions announcements and analysis.

This complementary information gives our clients an enhanced view of their corporate actions events. We continue to explore areas across the entire lifecycle in order to help organisations achieve greater operational efficiency and cost controls, while at the same time, improve risk management practices.

Providers that are unwilling or unable to partner with their clients in order to better meet their needs will have an uphill battle in terms of surviving in the space.

Bertin: While recent market events have created challenges for all providers of solutions and services to the financial industry, as a general rule, where the solutions being provided solve genuine needs among the customer base, they have a good chance of finding support and adoption.

At Swift, we have an active Partner Management team focused on working closely with the right providers to better support our mutual customers as they seek to eliminate risks and costs from their operations.

In the corporate actions arena, our SwiftReady Corporate Actions label is awarded to vendor solutions that comply not only with industry standards but also market practice around the standards' use – adherence to which is crucial if participants are to gain the maximum benefits from standards adoption.

Phillips: Whilst many financial institutions have spent the past year assessing their IT and infrastructure options and are only just emerging from project freezes, a number of vendors have taken the opportunity to increase investment in their solutions in order to meet changing market demands.

Other software vendors have made the decision to enter the corporate actions automation space, some with software as a service (SaaS) offerings, and others with modules incorporated into existing back office solutions. For such a specialised function and with fewer firms in the market place, there now arguably exist an unsustainable number of corporate action automation vendors, and it is foreseeable that in the near future some vendors will divest their corporate action solutions if those solutions do not comprise part of their core offering.

Heer: Specialised data vendors can address special topics more flexibly than the, often slower moving, big incumbents. Nevertheless, financial institutions don't want to deal with a big number of service providers. It can be expected, that over time, those niche players that prove successful will eventually end up as a newly acquired part of the big players, who might not always have the innovative ideas but certainly have the financial horsepower to make a business sustainable.

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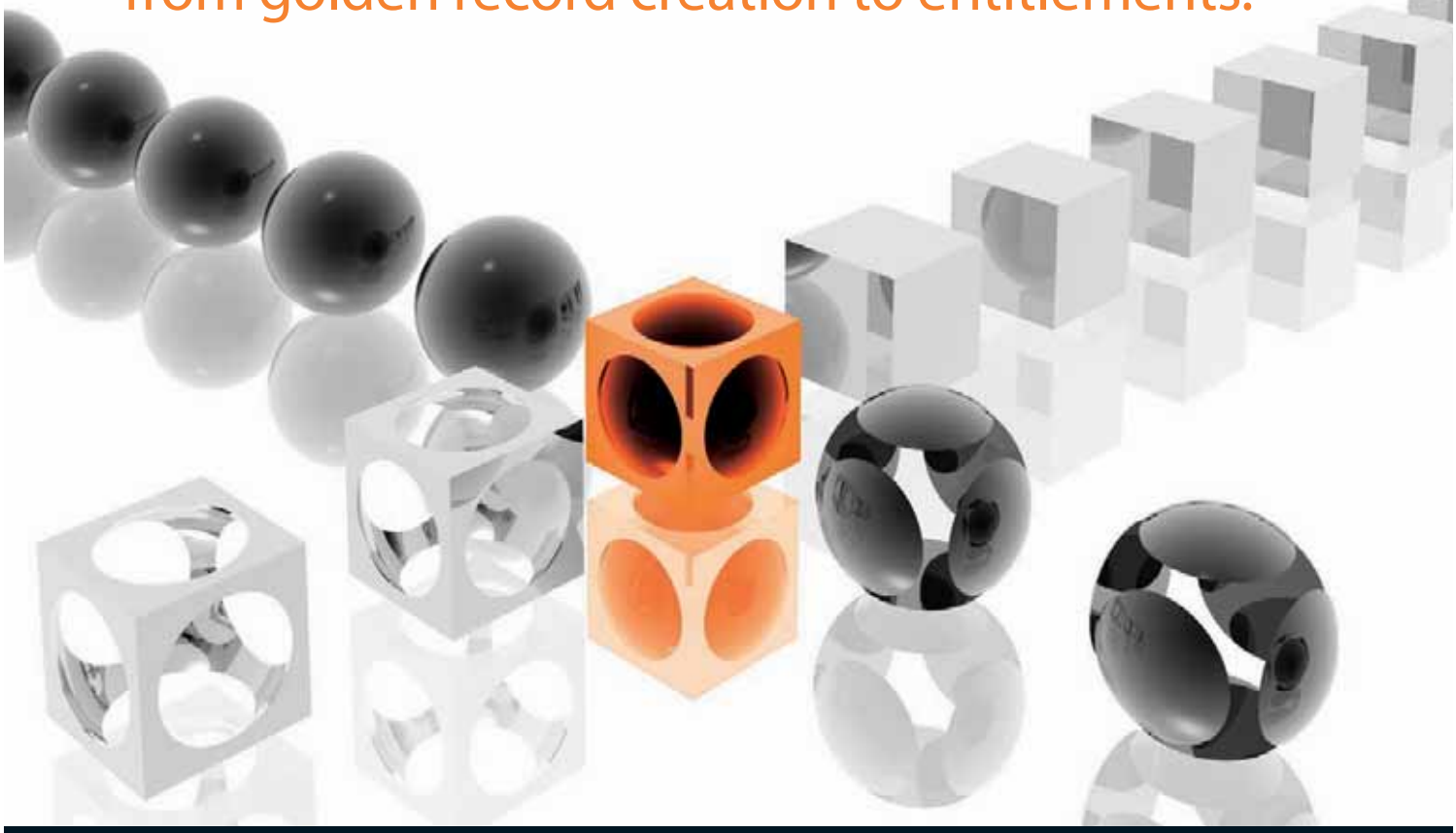

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