INCREASING CORPORATE ACTIONS
WORKFLOW EFFICIENCY
ACROSS THE ENTERPRISE
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INTRODUCTION

TIME FOR A CHANGE

Changes to corporate actions processing and distribution – often still inconsistent and fraught with unnecessary delays, risk and cost – have long been overdue. Now, with the overall industry endeavor to promote efficient financial markets, there is an increasing appetite to transform corporate actions processing and put an end to paper-based dissemination along with its inherent risk of misinterpretation. Although the consumption of corporate actions information differs between institutions, all require access to high-quality, accurate and comprehensive corporate actions data as the starting point for change.

While corporate actions data has always been important for back office processing, portfolio administration and accounting functions, the front office has traditionally not been seen as a heavy consumer of this data. But corporate actions information encompasses risks found across the breadth of a financial institution, and the data has always been needed in the front office. With heightened risk management requirements and investors seeking reassurance that the value of their portfolios is constantly being monitored for the implications of events, the last few years have seen a shift in the way that corporate actions data is used across the enterprise.

Middle and front-office functions need to incorporate timely corporate actions information into their risk management, product control, investment decisions and trading strategies. Timely, high-quality corporate actions data in the front office enables better-informed trading and investment analysis and decision making; it helps support global investment strategies, reduces interpretation errors and benefits the monitoring of accounts and positions.

In addition, there is now more interaction between back, middle and front offices on the formatting and use of corporate actions data. End-of-day batch processing is no longer appropriate and consistent with today’s risk-averse markets. The front office is increasingly seeing the benefits of getting the data continuously throughout the day. The drive for timely, high-quality information intensifies.
THE MOVE TO DATA ON DEMAND

A number of trends are driving the move to near-time or on-demand data. This white paper discusses what is triggering the increasing need for high-quality, near-time or on-demand corporate actions data and the potential benefits of timely delivery for investors and the financial industry generally. The paper also considers what data-on-demand could look like and where the industry could and should be over the next few years.

FREQUENCY AND COMPLEXITY OF EVENTS

It is estimated that there are nearly one million complex corporate actions announced each year worldwide, along with a further 10 million corporate actions announcements. Corporate actions cover a wide range of activities that the issuer or offeror must announce to investors, and broadly include both straightforward mandatory events and the more complex voluntary events. For example, some announcements are regularly scheduled events such as interest payments; some may simply involve cash payments of a dividend or additional stock in the form of a stock split or stock dividend. Complex corporate actions require the involvement of organizations that facilitate the creation and dissemination of information to shareholders. Terms and conditions can be highly complex, and cross-border transactions can involve a large number of custodians and other intermediaries with differing terminology and practices.

In the quest for greater returns, firms seek market opportunities from new corporate actions data streams as this presents new trading prospects. Complexity has also increased as firms look to access more international markets with different domestic rules, processes and procedures. This complexity creates a greater risk of error and generates challenges across the enterprise – from order management and pre-trade compliance, to clearing and settlement. New types of corporate actions continue to emerge with a greater variety of mandatory and voluntary events designed to reorganize, inject new capital, retain cash and bring about a range of financial solutions. A ‘multi-legged’ spin-off, where the holder receives more than one new stock or security with respect to the stock already owned, provides just one example.

Sophisticated structured products and bundled 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 the underlying constituents of the security. Derivatives are being packaged in novel arrangements and are subject to increasingly stringent regulation in areas such as reporting. Meanwhile, the Greek debt crisis saw the biggest sovereign debt restructuring in history whereby Greece exchanged its public debt issues held by private investors into a total of 24 instruments with longer maturities and lower yields. Even vanilla corporate actions that account for some 90 percent of the volume, such as the announcement of a dividend, have been made more complex as shareholders can elect to receive dividends in a variety of foreign currencies.

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1 Source: Swift, published in Inside Reference Data Corporate Actions Special Report, May 2012
RISK MANAGEMENT

The processes of dealing with corporate actions involve significant potential risks that affect the front as well as the back office. Corporate actions failures may result from several factors in the process, from misinterpretation and errors caused by manual intervention and dissemination, to timing issues leading to delays in communicating the information to investors. Financial institutions are subject to a range of risks, including operational, reputational and liquidity risk – and consequently, costs – if their corporate actions systems fail to keep pace with the evolution of the market.

Operational risk: Inefficiencies in the corporate actions chain, including misinterpretation and processing failures, late payments, and untimely information to the front office triggering poor trading decisions, can lead to operational risk and subsequent losses borne by intermediaries in the chain. As a key component of daily net asset value (NAV) calculations, it is critical that all corporate actions events are correctly identified and processed. High-quality, on-demand corporate actions data helps to reduce inefficiencies, especially when it shows the lifecycle of the data content to support an audit trail.

Reputational risk: Failure to properly handle even a single corporate action can result in significant reputational damage and exposure to financial risk. The need to interpret, transform and summarize corporate actions information can lead to inaccurate communication of an issuer message. Pricing errors and the associated reputational and financial loss are a significant concern for fund administrators. Again, high-quality, timely corporate actions data, using a robust and standardized process, is fundamental to managing this risk.

Liquidity risk: Effective liquidity risk management entails understanding the interplay between complex financial factors such as the relationships between issuers of financial instruments, the instruments themselves, the counterparties and clients involved. With increased complexity of corporate actions bringing about events that can suddenly change a firm’s risk profile, comprehensive and timely corporate actions data can play a vital role in helping to understand and analyze a firm’s risk exposure.

The distinction between market, credit and operational and other risks is increasingly being blurred. Risk management has become a function of the combination of all these factors in a single, enterprise-level whole. Firms are being required to judiciously manage risk: integrated, granular and frequent risk monitoring, stress testing, management and regulatory reporting, as well as better governance and control, are all called for. Furthermore firms need to show that appropriate controls of critical processes are in place.
MORE EFFECTIVE DATA MANAGEMENT

Measuring risk involves combining content from multiple sources into a single, coherent framework and marrying it up with internal data. To streamline this process, the more content that can be produced upstream the better, thereby reducing the integration complexity that the risk application needs to support. Data management at an enterprise-wide level provides a more timely response to the requirements of internal compliance and risk management reporting, not forgetting the client-driven need for transparency. The integration of disparate, unlinked information silos across an enterprise has become imperative.

Achieving ‘complete’ coverage and maintaining it in a sufficiently timely manner have become a multi-dimensional effort. By bringing together instrument pricing and reference data – including counterparty, legal identity and corporate actions data – as well as other data from across the organization, firms can better test and analyze risk. Given the need for timeliness, this content has to be staged and ready for use. For the data supply chain, that means having all the content in production and maintaining it on an intra-day basis so that it is readily accessible as and when it is needed.

In view of the prominent role of corporate actions in helping firms to provide the most up-to-date measurement and analysis possible, both internally and to their clients, data management is integral. The increased focus on intra-day monitoring of positions and point-in-time snapshots is also helping to enhance trading strategies and improve portfolio pricing. Consequently, the efficient processing of a range of corporate actions data in the most timely and reliable manner has become an essential preoccupation for risk managers and fund administrators around the world.

REGULATION AND REPORTING

A variety of statutes, directives, regulations and guidelines has evolved that will affect the corporate actions world. However, existing regulatory pressure is more focused on harmonizing clearing and settlement processes, rather than on the actual processing and dissemination of corporate actions. This is surprising given that corporate actions are an inherent part of the input to measure and understand risk. It is clear that competent reporting under new regulations requires efficiently processed, timely, accurate and reliable corporate actions data.

REGULATION AFFECTING CORPORATE ACTIONS PROCESSING

- Dodd-Frank Wall Street Reform and Consumer Protection Act, which has created new financial regulatory processes to enforce transparency and accountability
- MIFID II reforms for pre-trade pricing practices in the fixed-income and other EU markets
- Basel III, a long-term package of reform measures, due to commence on January 1, 2013, to strengthen the regulation, supervision and risk management of the banking sector
- Solvency II, which will establish a set of EU-wide capital requirements and risk management practices for the insurance industry
- European Market Infrastructure Regulation (EMIR) to increase stability within OTC derivatives markets
- Foreign Account Tax Compliance Act (FATCA), which comes into effect on January 1, 2013, is intended to improve tax compliance by U.S. citizens and entities through foreign financial institutions (FFIs)
- Financial Stability Board (FSB) recommendations on a global system of legal entity identifiers (LEIs) to counter systemic risk will impact corporate actions through the need to know your counterparty.
Traditional corporate actions processing has required issuers to publish detailed documents describing the event, such as news releases and regulatory filings. Financial intermediaries interpret and re-key important data from these documents and then pass the information on to shareholders. Yet, despite the huge costs associated with errors in manual corporate actions processing – some estimate as much as US $1 billion annually – this system has largely continued in our global, automated world.

Industry initiatives in financial messaging standards such as ISO 15022 and ISO 20022, as well as the Extensible Markup Language (XML) format, are helping to drive the automation of corporate actions data. This, combined with the Securities Market Practice Group’s (SMPG) updated market practice guidelines, can help in the process of evaluating, self-policing and benchmarking compliance of inbound or outbound corporate actions announcements with industry practice.

With budgets under pressure, firms are looking at end-to-end processing solutions that can deliver both a higher return on investment (ROI) and a lower total cost of ownership (TCO), provide data to the end user faster and give greater client satisfaction. Although the investment in such solutions can initially seem high, the large reduction in processing risk and ongoing operational cost savings strengthens the overall business case.

With the drive for lower TCO affecting spending on systems and infrastructure, a managed service provider or software as a service (SaaS) can offer a lower cost alternative. Vendors now offer SaaS-based versions for processing data in a cloud environment that lay the foundation for access to near-time display of corporate actions events and their impact on portfolios.

Outsourcing a corporate actions service in this way can offer a compelling alternative to supporting legacy infrastructure and processes. Financial institutions can benefit from a scalable solution that provides cost control and efficiencies, and reduces in-house IT and operational resources. Crucially, institutions can more effectively process corporate actions information in a timely and accurate manner, helping to minimize risk for both the firm and its clients.

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A CONTINUING EVOLUTION
TRANSPARENCY AND COLLABORATION ACROSS THE ENTERPRISE

The external pressures outlined above have led to an evolution in the way firms wish to consume, analyze and disseminate data. Globalization, the increased complexity of instruments, and the ensuing heightened requirements of risk management and compliance with new and evolving regulations and guidelines – not forgetting client pressure and the need to restore investor confidence – have led to the need for far greater transparency and collaboration across the enterprise.

From portfolio administration and accounting functions, through understanding and analyzing risk exposure, helping to support investment strategy, to trading operations and client notifications, there is increased conversation on the formatting and use of content as firms worldwide seek to develop and enhance data management functions. The goal: timely information that can be easily managed and accessed at an enterprise-wide level.

OPERATIONAL EVOLUTION AND THE NEED FOR SPEED

Asset servicers such as financial intermediaries continually seek to improve the level of performance they offer their clients, but are under constant cost pressures. Consequently, financial institutions often examine how they can automate large volumes of corporate actions quickly and efficiently.

Traditionally, there is often a delay of up to 24 hours for the notification of a non-income-associated corporate actions event to be received and then delivered to clients, and income-related events can take up to three days. Now, with the growing trend towards event-driven capabilities, firms seek to consume breaking news in departments across the enterprise. It is clearly a competitive advantage for firms to have data delivered in a timely, efficient and easy-to-consume manner, enabling institutions to provide their clients with up-to-date corporate actions information.

While it is possible that corporate actions reporting will one day move to real time, near-time delivery is more realistic given market and technology constraints. Corporate actions data delivered in near time enables firms to speed up decision making and benefits both pre- and post-trade analysis with comprehensive global content that can be delivered on demand via Web services or an application programming interface (API).

TRANSFORMING DATA DELIVERY
IMMEDIATE BENEFITS ACROSS THE ENTERPRISE

- Power of data unlocked to fuel revenue-driving applications
- Faster, more effective investment and trading strategy development
- More efficient trade operations
- Improved risk management
- Enhanced compliance operations
- Reduced total cost of data management
- Enhanced workflows across the enterprise
Timely corporate actions data using a standardized electronic format and industry practice will benefit participants throughout the financial industry. Investors will benefit from faster, more accurate data enabling them to make informed decisions with a wider decision-making window; issuers will benefit from the knowledge that their message is accurately communicated in an effective manner; improving transparency and reducing latency between issuer and investor; regulators will value the new efficiencies in the communication process between all parties involved, and the industry itself will benefit from the reduction of risks and costs, where manual intervention and interpretation are significantly lowered and improved straight-through processing (STP) rates are achieved. 

**RISK MANAGEMENT REQUIRES MORE TIMELY DATA**

The global requirement for improved risk management has added to the call for more timely information on corporate actions in order to understand the impact of events on liquidity and risk exposures. Having accurate, timely data enables decisions to be made earlier and helps reduce risk.

Corporate actions can have a direct impact on whether trading strategies are in or out of compliance with a specific customer mandate, especially as mandates have become increasingly complex. Corporate actions that affect stock prices need to be anticipated and stored for the purposes of compliance, valuation and analysis. With exchange-traded funds (ETFs), for example, firms are looking to understand the behavior of the underlying constituents – how that might drive price changes – and they want reports based on this need.

Competition for asset servicing remains intense and regulation demands high-quality collateral to underpin risk positions and trading activities, with the regulators wanting to see risk data on demand. In many investment strategies the requirement to short a security is part of a broader approach; investors want to leverage their assets and all parts of the business are under pressure. These conditions highlight the growing need to manage collateral and stock lending functions more efficiently.

We have already seen considerable progress in the integration of data into workflow processes. Disparate sources and feeds are being integrated into systems that monitor and communicate actionable corporate events. This has led to a growing number of banks and asset managers looking to invest in single source systems in order to manage and process corporate actions.

Clearly, the new environment requires a major shift towards a near-time, event-driven operating model; financial institutions must evolve their corporate actions processing systems away from traditional end-of-day batch-oriented processing. That evolution is now taking place: major investment banks that have historically run end-of-day batch data processes are already looking to run data as frequently as every 15 minutes in order to more efficiently monitor positions, gain a near-time view of exposures, and feed downstream risk management systems. On-demand data with added analysis is becoming the new standard.
THE PROVIDERS’ CHALLENGE

The challenge for providers of corporate actions information is twofold. First, the actual information must be collected, analyzed and verified in a timely manner, and second, the information needs to be delivered in the appropriate format for easier integration and consumption by downstream applications. Standardizing the data at source can increase operational transparency and lead to a reduction of errors, risk and cost.

Providers must then make the information available to users in the manner they require: on demand, ad hoc, scheduled intra-day delivery, end-of-day file-based delivery or a managed database solution. The data needs to be accessed in an easy-to-interrogate manner so that the user can search for corporate actions that fit particular criteria or enable the review of historical event data. This requires a well-designed and built data model, combined with high-quality data.

A TRANSFORMATION IN DELIVERING DATA

Recognizing the need among clients and partners to more effectively acquire and manage global corporate actions – and indeed the vast breadth of pricing and reference data – some providers are transforming the way in which the data is collected, managed, distributed and presented to the market.

Intelligent hosted data models can enable users to access a single, consistent master set of content that can be easily consumed across the enterprise through a central service that provides a seamless, consolidated view of global security master data, corporate actions, end-of-day and intra-day pricing, and evaluations.
Providers such as Interactive Data offer a range of options. These include hosted databases designed to encompass data collection applications, catching virtually all the data from feed handlers, as well as providing advanced negotiation and validation capabilities, data storage and access. High-quality data flows straight into applications and the cost of managing reference data can be significantly reduced. The data is presented in industry standard interfaces such as XML or ISO to provide consistency and ease of downstream integration, improving STP rates.

Using state-of-the-art technology, corporate actions data can be provided how and when it is needed. Message-based publishing enabling access to corporate actions messages throughout the trading day, on-demand API allowing applications to request specific content sets, and continuous data flow via hourly file transfers, are all available options from Interactive Data.
Outsourcing managed services can offer firms a real-time, high-performance, fault-tolerant, message bus: a vast source of global information assets delivered in a way that makes data integration significantly easier and that increases workflow efficiency. Apart from offering firms greater operational flexibility, such delivery technology can reduce downstream fixed and operational costs because economies of scale are passed through to the user.

As a result of this transformation, time to market for new data can be rapid and continuous. Data content for near-time delivery is available, enabling firms to respond faster to events that affect their clients’ portfolios. Global investment strategy development, compliance, risk management and trade operations can all significantly benefit from the efficiencies of improved delivery technology. ___<<
ON-DEMAND CORPORATE ACTIONS DATA WITH ADDED ANALYSIS CAN HELP FIRMS:

- Manage current positions with start-of-day changes/ex-date
- Communicate time-sensitive corporate events to clients throughout the business day
- Understand the value of holdings and measure risk exposure when securities are traded
- Calculate and process entitlements and payments
- Populate and monitor cash flows for total return and fair value calculations
- Provide notification of missed coupon payments or other mandated activities that affect ROI calculations
- Provide historical adjustment factors and corresponding capital change type identification – to support charting, interpolation and other statistical analysis and adjustment applications
- Show audit trail – key for operational risk management

SUMMARY

Corporate actions data is being more widely used – and in different ways – across the breadth of the enterprise. The demand for information to support asset servicing is moving away from end-of-day batch-based processing to an on-demand, event-driven operating model. This is driving not just more efficient processing, but also satisfying the new requirements from the middle and front offices to understand how corporate actions impact trading operations and investment strategies, and the need to effectively measure and manage risk.

This new era requires the information providers to raise their level of service across a broad front. Timeliness; 'complete' global coverage; integrated multiple sources; content available how and when it is needed, and of course, data quality and accuracy, are the goals to achieve.

Developments in operational risk over recent years highlight that additional effort and transparency from information providers are expected and must be accounted for in day-to-day business operations. The need for accuracy goes considerably deeper, to the point of exposing the lifecycle of the data content itself to users in order to support the necessary audit trails.

These trends point clearly to the need to integrate high-quality data content – including corporate actions – innovative technology, internal workflow and superior service levels into a coherent package. The convergence of content with technology at an enterprise and global scale will enable firms to satisfy the industry and regulatory demands being placed upon them.
About Interactive Data

Interactive Data Corporation is a trusted leader in financial information. Thousands of financial institutions and active traders, as well as hundreds of software and service providers, subscribe to our fixed income evaluations, reference data, real-time market data, trading infrastructure services, fixed income analytics, desktop solutions and Web-based solutions. Interactive Data’s offerings support clients around the world with mission-critical functions, including portfolio valuation, regulatory compliance, risk management, electronic trading and wealth management. Interactive Data has over 2,500 employees in offices worldwide.

Pricing, evaluations and reference data are provided in the U.S. through Interactive Data Pricing and Reference Data, and internationally through Interactive Data (Europe) Ltd and Interactive Data (Australia) Pty Ltd.

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