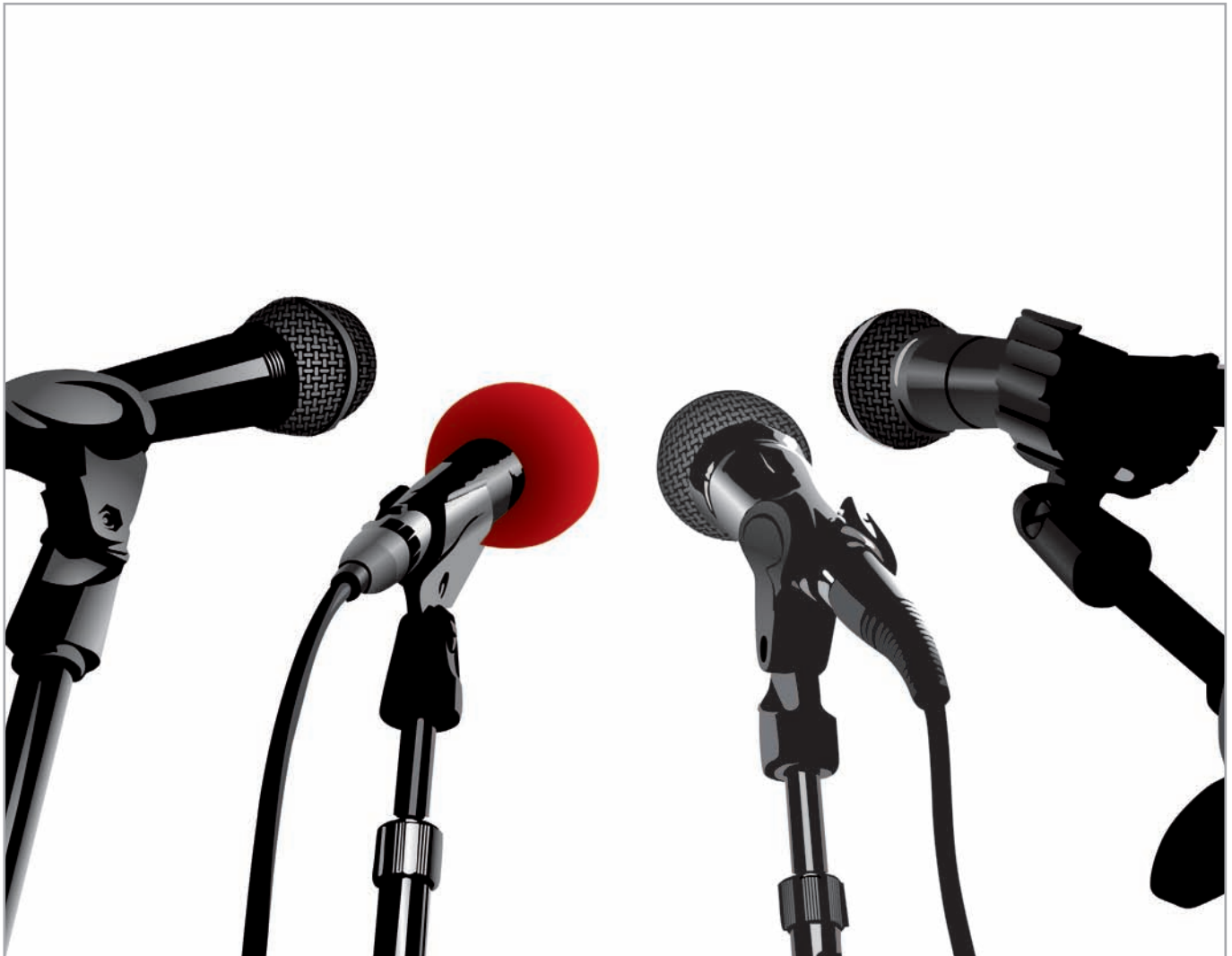


Managing Corp Actions Risk

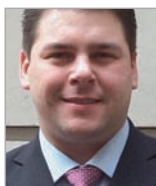
Web Seminar: November 18, 2009



Moderator: Panelists:



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Despite industry efforts to reduce financial losses typically associated with corporate actions processing, managing risk remains one of the major challenges for the corporate actions industry. On November 18, *Inside Reference Data* gathered leading corporate actions professionals in a web forum to discuss what more could be done to help improve the situation

Managing Corporate Actions Risk

Reducing risk remains at the top of the financial services agenda, and in the corporate actions space, it is at the core of all discussions. Greater automation and standardization of corporate actions messages at the issuer level are now regarded as top priorities to facilitate risk reduction. But while 2009 saw a great push to reach these goals, there is still more to do.

In an audience poll held during the web seminar, 51% of participants said greater automation of processes can be considered the main success story in the corporate actions space during 2009, and 32% of participants said the push for global standardization of corporate actions at the issuer level had been the real success of the year (figure 1).

Yet, there are still outstanding issues to address. Cost control remains a concern. Only 2% and 15% said that STP reduction and cost control respectively could be considered an area of success in the corporate actions space during 2009. But, with investment still high despite the economic downturn, the industry appears to be in the right mindset to achieve results.

Demand for new solutions is growing. London-based Stephanie Hardaway, business project manager, HSBC Securities Services, said: "Both financial institutions and vendors are investing in the corporate actions space, and it is encouraging to see there is an existing and even new demand for system solutions."

In the past year, it has been all

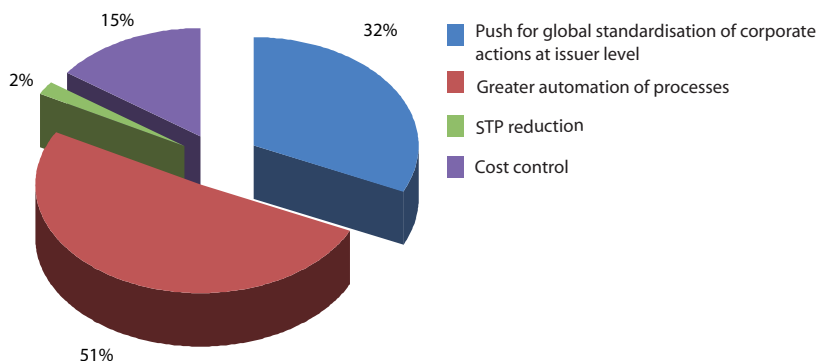
about achieving the necessary balance between the need for risk reduction and maintaining low costs. In a poll, 82% said firms are still investing in corporate actions processing systems. In the same vote, 44% said firms are investing, but not as much as they should, and only 13% said firms are no longer investing in the corporate actions space as it has lost momentum (figure 2).

Investment and interest is growing. And this promises to be reflected in some global custodians' 2010 roadmaps. "If we receive a message that isn't in compliance with market standards from a global custodian, we will work with that custodian to understand if they are able to make changes to put that message in line," says HSBC's Hardaway.

Firms are continuing to invest, but they will increasingly have to ensure they do so intelligently, and they will have to pay specific attention to what they are trying to achieve, whether it is operational efficiency or risk mitigation in the corporate actions space. Spending in systems will be necessary, but firms will have to ensure they have the adequate professionals within their corporate actions teams. London-based Paul Phillips, director, business development, SmartStream Technologies, said: "It's not a question of whether firms are spending enough, but whether they are spending intelligently enough."

New York-based Amy Harkins,

1. What has been the 2009 success story for corporate actions?



senior vice-president, managing director, global head of corporate actions, proxy and class actions, BNY Mellon, said counterparties are looking at how to reduce risk and operating costs as well as keeping knowledge and service levels high. “Keeping knowledgeable staff on hand during this turbulent environment as we are trying to reduce costs is key,” she said, adding that firms have occasionally had to move their staff to lower cost locations.

Phillips agreed that having the right staff within the teams is essential. Firms will not only have to look at how they spend in the corporate actions space, but they will also have to make sure they invest in people as well as systems, he said.

“If you go back a few years, within industry forums, automating the process through a single solution was perceived to be the only way to solve these problems, but now it is about the intelligent use of systems and technology, buying the right systems, and having the right people in place that are able to deal with the issues,” said Phillips.

The Outstanding Need for Standardization

While costs remain a balancing act, panelists agreed not enough is being done to reduce risk of corporate actions processing, a space well-known for high risk levels. To manage risk, standardization and automation are at the heart of the debate.

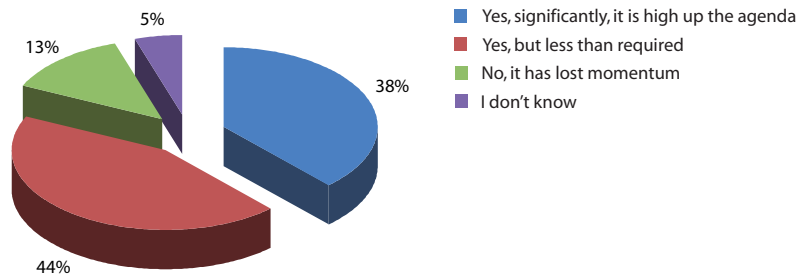
Yet, automation within the announcement capture area will continue to be problematic, primarily due to the use of non-standard messaging. Boston-based Deborah Culhane, chief operating officer at Fidelity ActionsXchange, said: “The industry needs to push forward and quicker in the standardization [of corporate actions]—a huge factor for risk assessment.”

Standardization of corporate actions messages remains one of the more debated topics in discussions concerning risk reduction in this space. For more than a year, the industry has made a push for issuers to use data tagging standard eXtensible business reporting language (XBRL) for corporate actions announcements. XBRL could represent the long-awaited change to help standardize announcements at the source level, a move that could allow firms to achieve STP or automation within the announcement or decision capture.

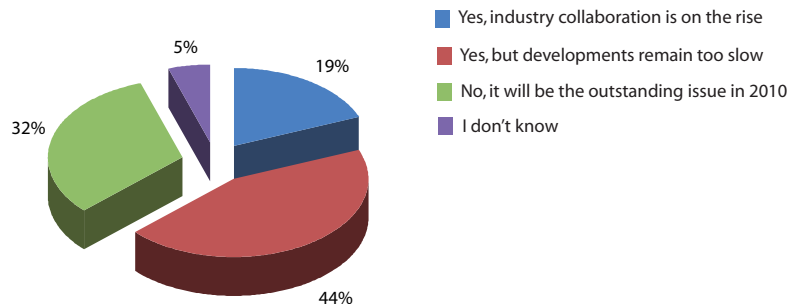
More than 80% of participants said data tagging at the source level will help manage the risk of corporate actions, with 46% claiming this will be the case partly and 40% significantly. A total of 14% disagreed this would make much difference, and 7% said the usage of data tagging would not reduce risk at all, while the rest said they were unsure of the impact (figure 4).

Still, XBRL remains at the forefront of

2. Are firms still investing in corporate actions?



3. Is the industry doing enough to push for greater automation of corporate actions processing?



discussions, and many believe it could represent a drastic change in the corporate actions industry. During 2009 DTCC, XBRL US and Swift teamed up to back the XBRL debate in the US and internationally, with the goal to improve the processing of corporate actions announcements. In May 2009, they released a “Statement of Direction”, aiming to promote STP throughout the corporate actions lifecycle, while highlighting the need for reducing both market risks and costs linked to the announcement processing.

In fact, XBRL could represent what the industry is looking for in terms of improved data consistency, but some suggest it would not impact or improve the levels of data quality. “Data tagging will have a major forward movement in consistency, but I am not sure we can say accuracy will be improved,” said Fidelity ActionsXchange’s Culhane, who still added she agreed with the 46% of poll participants who said tagging at the source-level will help manage the risk of corporate actions.

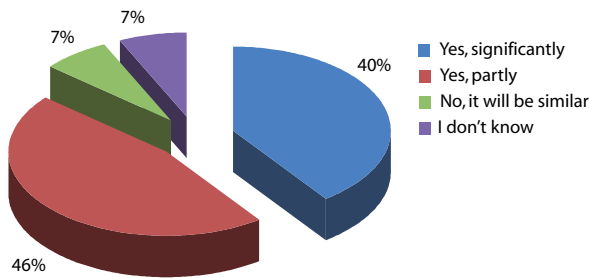
In other words, XBRL could represent part of the solution for corporate actions, but it may not resolve all existing challenges. “It will tremendously improve the consistency of

information, and I am encouraged the timeliness will improve, but this isn’t the full and complete answer. It is the right direction and a strong component in risk mitigation, but it is not the complete solution,” she said.

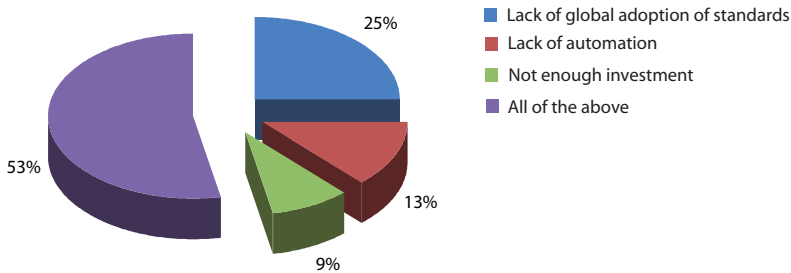
At the moment, timeliness remains problematic. End-users are looking to receive information on announcements faster, but data providers are struggling to source, validate and standardize records at a higher speed due to the complex nature of corporate actions messages. So far, there is also widespread agreement that change is not expected anytime soon. Despite the benefits greater automation and standardization would bring in the corporate actions space, panelists agreed developments remain too slow. In fact, the polls revealed more than 44% of participants think that while the industry is doing enough to push for greater corporate actions processing automation, developments are not prompt enough. Only 19% said developments are on the rise, while nearly 37% said this timeliness will remain the outstanding issue in 2010 (figure 3).

For the market to change, panelists said there needs to be agreement among all parties

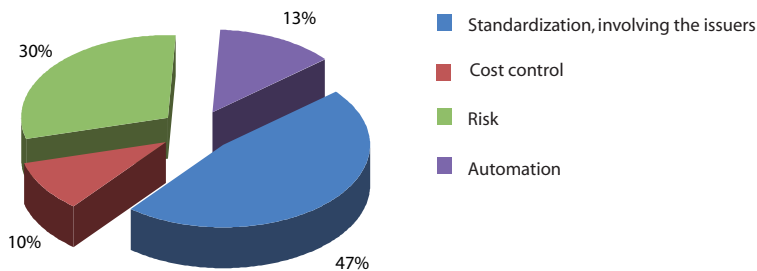
4. To what extent can data tagging at the source-level help manage the risk of corporate actions processing?



5. What remain the main obstacles to reduce risk in the corporate actions space?



6. What will be the hot corporate actions topics of 2010?



in the corporate actions messaging lifecycle. Culhane said: "I think there is a tremendous amount of discussion and support, and [for] the XBRL initiative to implement by 2015 is encouraging, but the question is: will the issuer community engage in delivering a comprehensive set of information?"

Despite the general consensus on the benefits of XBRL usage, one of the main challenges is building a strong business case to convince issuers to take part. "It is great that we as an industry that consumes this information are

discussing standardization, but [the question is]: how do you influence the source of the information to participate?" she asked.

SmartStream's Phillips said more action is needed, and that the industry is not doing enough to move forward. "We need to stop discussing and pacifying everyone's wants and desires, and come up with a fixed standard everyone can use that isn't open to interpretation, where the market-place has a clear understanding on what is being discussed, the vendor space has a clear ability to publish that

information and the software space has the ability to process it," he said.

"It has to be in the interest of the organization that the event they are processing reaches the audience as widely as possible and that the information they want to distribute is put to the market-place as quickly and accurately as possible," said Phillips.

Global Standards, But No Standardization

Meanwhile, on a global scale, the level of standardization in corporate actions remains limited and an obstacle for risk reduction in this space. Culhane said greater communication is needed to overcome this challenge. "I think it would be helpful if Swift continues a dialogue with the market-place on how they guide organizations that have not even implemented 15022 to a migration strategy," she said.

Twenty-five percent of participants, in fact, said the lack of global adoption of standards remains a main obstacle for risk reduction, while 13% said it was the lack of automation and 9% claimed the lack of investment was the major impediment. A total of 53% said all were factors obstructing risk reduction for corporate actions (figure 5).

Looking Ahead

Last year, the Securities and Exchange Commission (SEC) asked DTCC, Swift, the XBRL consortium and representation from the ISO and industry bodies, such as ISITC and SMPG, to produce a formal business case on the benefits of XBRL usage for corporate actions, spanning issuers, banks, broker dealers, custodians and the investment community (*Inside Reference Data*, September 2009). The SEC has just gone live with an XBRL portal, XBRL.sec.gov. Many will be hoping to see corporate actions in that portal in the next couple of years.

And just as standardization has been one of the greater areas of focus during 2009, it is also expected to be in the spotlight this year. A poll revealed that 47% think standardization and issuer involvement will be one of the hot topics in the corporate actions space in 2010. Twenty-eight percent suggested risk will be in the spotlight, followed by automation with 13% of the votes and cost control with 10% (figure 6).

While 2010 is not expected to be the year when all corporate actions challenges are overcome, it promises to be more about action than about debating what the industry has already agreed is on. Progress is being made, the key players are involved, and with investment in this space still on the rise, the New Year could represent a turning point for the corporate actions industry.

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