FEATURES

Storing up trouble?

How has the enforced change in working environments brought on by the COVID-19 pandemic affected the functioning of corporate actions and company meetings? In the first of a two-part analysis, Richard Schwartz explores the scope of the challenge that issuers and their service providers are facing.

By Joe Parsons June 19, 2020 11:44 AM GMT

Many post-trade processes were well automated prior to lockdown and have therefore coped with the disruptions to the market that have come from the COVID-19 pandemic. Corporate events, including rights issues and voting at company meetings have, however, been regarded as relative laggards in this regard, though systems do exist to facilitate these processes.

While it's perhaps too early to conduct an in-depth analysis, anecdotal evidence suggests that both the nature and scope of the challenge is changing. "What we've seen as the reaction to COVID-19 and this very, very strange situation that the world's found itself in is that a number of large organisations have cancelled their dividends, while family-owned organisations are keeping them, because those organisations fund their owners through dividends," says Adam Cottingham, product manager, corporate actions, SmartStream. "So, you've got a lot of pension funds holding stock that will lose out in the short term."

In general, however, says Cottingham, it's business as usual, regardless of whether the processes are automated or not. "The amount of strain the operation will be under will be determined by the level of systematic control they have," he adds. "Are they able to work under BCP conditions remotely? If you look at many BCP policies, many are based on second fail-over sites; the current situation has meant that even the second fail over site is not working as people are actually at home."

"Over the last few weeks, we have spoken with several firms who are suffering immense pressure resulting from the combined challenges of high volumes, position changes, corporate action event changes and BCP," says Philip Taliaferro, general manager, asset servicing and head of EMEA and APAC strategy, Broadridge. "On the BCP front specifically, many of the more antiquated solutions and spreadsheet-based processes cannot be performed remotely. We are hearing of operations teams being pulled into the office, creating health and safety risks."

The initial wave of the virus pandemic has also coincided with the months associated with multiple company meetings. Electronic voting and other technologies that enable distance voting at annual general meetings have been available and discussed in the financial ecosystem for a few years. Nasdaq Market Technology has, for example, been working with eVoting since 2016. "During the first quarter of this year when the global pandemic forced us all into social distancing, we noticed intensified discussions on how to implement technologies that enable AGMs and uphold a healthy corporate governance culture globally, where shareholders are still able to vote and exercise their shareholder right while adhering to the new social distancing guidelines. Since then, we have had numerous discussions with service providers," comments Andreas Lundell, head of CSD product management, market technology, at Nasdaq.

The challenges are not purely technological, however. Taliaferro's colleague, Demi Derem, general manager, Investor Communication Solutions International at Broadridge, notes that: "As the COVID-19 pandemic continues to evolve globally, some public companies have struggled to interpret company law and regulations to determine when and how to hold their annual general meetings." He acknowledges that where there has been confusion, governments have moved fairly quickly to introduce changes to allow for extensions on when issuers can hold their meetings. "We have also seen changes allowing for virtual-only meetings to take place," says Derem. "The flexing of filing rules has resulted in meetings taking place further into the calendar year than normal. The ability of issuers to hold virtual-only meetings has most certainly helped to keep the issuer corporate governance wheels turning."

As a result, except for meetings taking place later in the year, he does not expect a material change in the overall volume of meetings. "While down, the traditional meeting peak season months of March and April have remained the same. Where we have seen a dip in these months, we expect to see a pick-up in corporate governance activity between June and August," he adds.

Other corporate actions, such as rights issues, do appear to have been affected by market volatility in Q1. As Jonny Ruck US CEO, Scorpeo points out, a volatile market environment does not lend itself to a smooth corporate actions process. "It's not always the best time to try and do a rights issue, because you announce it, you publish your strike price and, before you know it, the markets take another hit and suddenly your market price is below your strike price. So they need a little bit of stability." The alternative, he says, is to offer incredibly discounted issues.

In addition, he notes, “In the majority of cases, the big financial institutions are in a position where they underwrite these rights issues. If you blow down through the strike price and nobody takes them up, the bank underwriter is obviously left with a load of shares that they have to buy. So even the financial institutions have to look carefully at whether they want to underwrite such issues and a lot of these companies won’t do a rights issue until it’s underwritten.”

Ruck has been dealing in various capacities with corporate actions for almost 20 years. The closest he’s seen to the current environment is the financial crisis of 2008, though he believes comparisons should be made with caution. “At that time, it was mostly financial institutions who were looking to raise capital. Hundreds of billions of dollars were raised, mainly through rights issues. It’s very likely we’re going to see the same here, but probably to an even greater extent, because in this instance, more than just the financial institutions are going to be hurting and short of cash. Whether it’s later this year or whether it rolls into 2021, we will see a lot of companies looking to do rights issues.” Ruck also expects scrip dividends to return in popularity as companies look to retain cash.

While so far the industry has held up, SmartStream’s Cottingham suggests that the entire chain is straining. “There is a network with multiple counterparties, all of which, at each interaction point, has the potential for failure,” he says. How this strain is mitigated will depend on whether anticipated volume predictions are realised and whether automation of current manual processes can rise up the industry’s collective agenda.

Part 2 will explore the operational implications of this processing environment and the impact on investor portfolios of current levels of missed events