A new dimension of automation possibilities

Maddie Saghir Reports

It's no secret that corporate actions have remained largely manual in the asset servicing industry, so how fast is the industry accelerating towards implementing technology in this space?

Industry experts have emphasised that corporate actions are extremely important because they represent the governance and capital return relationship between share-issuing companies – issuers – and end investors.

While technology may not necessarily be the solution for the complexity of corporate actions, they can help simplify how they are processed.

Philip Taliaferro, general manager of asset servicing at Broadridge, explains that the industry has traditionally processed corporate actions on existing back-office systems which were separated by region, line of business or asset class.

Exacerbating these challenges, those systems were not integrated with one another and often operated on a batch cycle without any real-time capabilities, according to Taliaferro.

"In many cases, exception handling (resulting from securities lending or sale during the event lifecycle) is handled on spreadsheets and elections are captured manually; resulting in operational risk and significant labour expense," he continues.

However, more modern solutions are available. Already, institutions are deploying technology to help navigate the complexities of corporate actions.

But is there still some way to go.

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Implementing Technology

Corporate actions have remained a largely manual, costly and financially risky activity even as other parts of the trade and asset lifecycle have moved to straight-through processing (STP), according to Taliaferro.

One silver lining is that the industry is starting to turn to technology to help navigate the complexities. Taliaferro observes that the industry has finally reached a turning point in which the client demands, regulatory requirements and cost pressures demand action. "Fortunately, the technology is now available to meet these challenges," he adds.

However, Adam Cottingham, product manager corporate actions, SmartStream, highlights that people often underestimate the complexity associated with corporate actions and suggesting that it is hard to automate. Technology is critical to be able to automate and control it.

Cottingham says: "There is a data flow obtaining information across multiple participants in a time-critical way; throwing more people at this cannot help reduce risk against it – you need a system in place. Technology is crucial to be able to enable a better client service relationship as beneficial owners under Shareholder Rights Directive II are being asked to come into the process of making electronic decisions."

He continues: "There is also the technology chain making corporate actions processing and proper integration fundamental for running an accurate book of record. The adoption of artificial intelligence (AI) to support narrative cleansing and predictive matching is also important."

Echoing the importance of applying technology, Ankush Zutshi, head of product management, securities processing and corporate actions at IHS Markit, comments: "Technology is a significant contributor to the simplification of corporate actions."

"In response to all the challenges in corporate actions processing custodians have focused on the need to continuously improve efficiency and reduce risk by investing in rules-based workflow automation technology and digitalisation tools, either building or buying market-leading asset servicing solutions," Zutshi says.

According to Zutshi, these solutions facilitate increased efficiency and risk reduction by automating the end-to end-workflow with the aim to

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increase STP rates. This creates time and resources to focus upon the identification and resolution of exceptions.

At the Depository Trust & Clearing Corporation (DTCC), an American post-trade financial services company providing clearing and settlement services to the financial markets, the belief is also that technology is critical for increasing automation in the corporate actions space.

DTCC says that automation such as the use of APIs and real-time messaging can have a positive impact on the entire industry, from central security depository to custodian/broker-dealer, to asset manager to the beneficial holder and even to the various agents that aid in facilitating processing.

Additionally, DTCC believes that the use of standardised, modernised, real-time technology can provide the industry with accuracy and efficiencies that will allow firms and individuals to make sound investment decisions and maximise their investment returns.

Elsewhere at Broadridge, there has been substantial investments in a new corporate actions solution that is designed to span all lines of business, operate in real-time, and is built on a modern technology platform, hosted in AWS and integrated via a modern application programming interface (APIs).

Broadridge's Taliaferro says: "Over time we are building out intelligent automation capabilities that will harmonise events and further reduce operational exceptions."

The compelling economics of cloud is especially very valuable to custodians who were earlier struggling to replace their legacy technology platforms that were hindering the digital transformation efforts

The types of tech

Fabian Nelissen, head of global asset services at Clearstream reinforces the point that technology and automation are the cornerstone for successful processing of corporate actions, and if it does not always directly simplify the corporate actions in itself, it simplifies the operational processes through the chain of stakeholders while guaranteeing better quality and time to market.

"The ultimate goal is always to offer the best level of service to our customers while reducing burdens on their side as much as possible", Nelissen highlights.

While it can be agreed that technology can help with corporate actions processes, there is a variety of tech to choose from, and each can be used in different ways.

Some of these technologies include:

- API, a computing interface which defines interactions between multiple software intermediaries
- Cloud computing, on-demand availability of computer system resources, especially data storage and computing power, without direct active management by the user
- Robotic process automation, a form of business process automation technology based on metaphorical software robots or on AI/digital workers

While DTCC has invested in providing clients with modernised graphical user interface, a form of user interface that allows users to interact with electronic devices through graphical icons and audio indicator, with export and advanced search functionality, as well as real-time ISO 20022 messaging, it will be focusing on building a suite of API services over the next several years.

These services will allow clients to access DTCC data in real time and "on demand", using simplified computer-to-computer communication and modernised programming languages like JSON.

Gerard Bermingham, managing director, sales/business development, financial markets, IHS Markit, observes that custodians are increasingly leveraging cloud to lower total cost of ownership and simplify implementation and maintenance of solutions compared to the traditional model of on-premise deployment and upfront ~ licensing costs.

"The compelling economics of cloud is especially very valuable to custodians who were earlier struggling to replace their legacy technology platforms that were hindering the digital transformation efforts as it is much easier for them to now implementing modern technology solutions in the market," Bermingham says.

Meanwhile, Bermingham notes that the increasing demand from buy-side clients on self-servicing, real-time information access and modern digital tools provide opportunities for custodians to leverage technologies such as APIs and open platforms.

"The API adoption is increasing at a rapid pace and their adoption can improve the efficiency not only around client communication but also interactions with the street including counterparties, market infrastructures and solution providers," he adds.

IHS Markit's Zutshi also weighs in on this saying that given the reliance on manual touchpoints and processes, developments in new technologies such as robotic process automation can help increase operational efficiencies by automating the basic repetitive tasks without impacting the technology infrastructure.

"Using robotics, web scraping and AI techniques to source corporate action data directly from newswires, the web, vendors and other providers and then analyse the unstructured data in disparate formats

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using AI and machine learning, to normalise can help reduce the manual validation efforts and timeliness issue for corporate actions," he comments.

Additionally, intelligent automation can also be used to analyse reconciliation breaks and patterns at different steps in the CA lifecycle around to help operations in faster resolution of such breaks. According to Zutshi, modern tools like NLP based chatbots can assist in client servicing for basic CA information queries and also assist in the decision-making process with additional information.

Clearstream's Nelissen summarises: "The rise of new technologies brings a new dimension in automation possibilities and even if the treatment of corporate actions is constantly evolving, the fact remains that the opportunities exist in order to reduce the inherent risks and increase efficiency and quality."

These opportunities come in different shapes and in recent years Clearstream has been working towards:

- Reducing manual intervention by automating data input and certain tasks by robotisation
- Optimising exceptions distribution and leveraging the use of workflow management tools with the goal to achieve advanced capacity management
- Eliminating paper processing by digitising the necessary information
- Shifting from hardcoded rules towards the flexibility AI and machine learning offers

Nelissen cautions: "But before designing a lot of solutions it is important to revisit the way it works. Robotising processes that legacy system changes can handle would also not be recommended."

Finally, the back-office is an important part of the value chain and no technology, even AI, will ever entirely replace the human experience, according to Nelissen.

He concludes: "The rat race between innovative corporate bankers who want to maximise the benefit of the issuer and the industry who wants to mould the event in a smooth process is far from over. It is therefore important to correctly reuse the resources that result from the efficiencies created by automation in order to improve the customer experience."

Corporate Actions

Maddie Saghir reports

Industry experts from Broadridge, Clearstream, SmartStream and FIS break down the basics of corporate actions

The financial services industry can be a daunting place, with an abundance of acronyms, jargon, and people who have been in the industry for decades who seem to know it all.

Asset Servicing Times will be introducing a new Educational Corner section to its issues, which will look at a range of different topics.

We hope this will be useful for industry newcomers, those who would like a refresher or people who are interested in learning about different areas of the financial services industry.

In this issue, AST will explore the importance of corporate actions.

What are corporate actions?

A corporate action is an event initiated by a public company that brings or could bring an actual change to the securities—equity or debt—issued by the company. Corporate actions are typically agreed upon by a company's board of directors and authorised by the shareholders.

Fabian Nelissen, head of global asset services at Clearstream, summarises that corporate actions correspond to events accompanying the life of a security and having a potential impact on the rights of a company shareholder or bondholder.

Philip Taliaferro, general manager, asset servicing, Broadridge notes that the term "corporate" is itself an interesting one because this area historically focused on corporate activities only, but today additionally includes handling of debt issued by sovereigns and municipalities.

Taliaferro explains the rise of private equity has created a large group of corporate debt issuers who actually don't have public equity or the associated dividend or governance considerations. In any case, the annual value of dividends is more than $1.4 trillion and the value of debt payments is many times that figure.

"For any financial intermediary, the accuracy and timeliness of corporate action processing is vital," Taliaferro highlights.

Example

"Imagine a simple scenario in which an institutional investor selects to receive equity as part of a debt restructuring but the intermediary inaccurately denotes the selection of replacement debt. The equity price increases by 20 percent and the investor is naturally delighted, yet the underlying records instead reflect ownership of the newly restructured debt. The intermediary is liable for payment of this 20 percent increase which could be tens of millions in some cases. This is but one example of the risks associated with corporate actions processing," says Taliaferro.

What are the different types of corporate actions?

There are many different types of corporate actions but Nelissen says they can be divided into two broad categories of events: predictable and unpredictable.

- Predictable events encompass events foreseen in the security's documentation, as for example the terms and conditions.
- Unpredictable relates to events announced and described in ad-hoc documentation, for example, an offer prospectus.

Inaccurate and/or incomplete corporate actions information can lead to significant financial and reputational losses for custodians

Nelissen explains that both predictable and unpredictable events can be subdivided into three main categories: mandatory events, mandatory events with choice, and voluntary events.

- Mandatory events relate to compulsory participation but no instruction from the security holder required.
- Mandatory events with choice regard compulsory participation but the choice available for the security holder; default option applied in case of no response.
- Voluntary events means that participation is at security holder discretion.

"They are important for the two main actors who are the issuer (listed company etc.) and the holder of the security. Stakeholders (custodians, central securities depositories, also when acting e.g. as trusted third parties) who are between issuers and holders play a very important role in the dissemination of information and in the collection of instructions necessary for the proper execution of events," Nelissen says.

Nelissen highlights the types of corporate actions are extremely vast and cover any event occurring during the life of a security.

According to Nelissen, corporate actions are generally classified into two categories: "plain vanilla" operations which do not involve any specific action on the part of the holder (e.g. payment of the dividend), and complex (or conditional) corporate actions which require a decision of from the holder (purchase offers, exchange offers etc.).

Why are they important?

Broadridge's Taliaferro explains that corporate actions are extremely important because they represent the governance and capital return relationship between share-issuing companies – issuers - and end investors.

The Depository Trust & Clearing Corporation (DTCC), an American post-trade financial services company providing clearing and settlement services to the financial markets, highlights that corporate actions are a critical component of post-trade processing, as billions of dollars of cash allocations and stock entitlements are facilitated through DTCC alone every day.

Inaccurate and/or incomplete corporate actions information can lead to significant financial and reputational losses for custodians, says a DTCC spokesperson.

"Given that, it is imperative that asset managers, buy-side firms, and, ultimately, beneficial holders receive timely and accurate notifications to ensure that all parties in the chain are making sound investment decisions and maximising their investment returns," the spokesperson adds.

Weighing in on the importance of corporate actions, Nelissen affirms that central securities depositories play an essential role in the conduct of corporate actions.

According to Nelissen, they ensure their initial registration, the centralisation of the corresponding accounts (number of securities in circulation) as well as the management of the settlement and delivery systems of financial instruments.

"The depositories thus record changes in holders, ensuring that the number of securities in circulation corresponds to the number of securities issued, which avoids fraud. They also play an important role in the communication of information relating to corporate actions and the collection of instructions relating thereto."

Nelissen continues: "Financials are often important for both issuers and the investors, that's why the accuracy of the information communicated, but also the completeness and the timeliness of communication play an extremely important role in the good execution of these operations and this in order to allow both issuers and holders to get the best results."

Collaborative solutions in the industry – looking into the whole value chain – is certainly a must to achieve efficiencies and qualitative outcomes

Where can you find further information?

Broadridge's Taliaferro agrees that there needs to be more education around corporate actions across the industry. He notes that this spans four areas:

- Opportunities to differentiate by having a best in class corporate actions offering
- Operational risk resulting from weak or poorly controlled processes
- Opportunities to drive down operational cost by using modern technology solutions
- Regulatory changes such as Shareholder Rights Directive II, Securities Financing Transactions Regulation, Central Securities Depositories Regulation that are increasing focus on this area

On the regulatory point, Taliaferro says "Just as one example in the last month, a large money manager was recently fined €700,000 plus by BaFin because it 'failed to submit notifications regarding voting rights within the prescribed period'".

Meanwhile, ClearStream's Nelissen adds that while education is important, collaboration in the corporate actions space remains fundamental.

"There are many stakeholders in corporate actions, each with their own interests and responsibilities, but it can only work if the chain is able to connect properly to offer a smooth end-to-end process," Nelissen cites.

He adds: "There is a key role for the agent who advises the issuer and will translate plain language into a smooth operational process. Very often less is more. Collaborative solutions in the industry – looking into the whole value chain – is certainly a must to achieve efficiencies and qualitative outcomes."

Elsewhere, working groups within the industry are also there to help participants understand and become educated on corporate actions. SmartStream's Adam Cottingham, product manager corporate actions, observes that the work that the global Securities Market Practice Group (SMPG) does goes a long way to promoting education around the subject matter and any application of those standards.

"Many firms need to be educated around decreasing their liability for failed manual processes, the potential for loss and reducing the capital requirement to offset these things," he stipulates.

Discussing the education on corporate actions, Adam Brill, vice president, product management, master data services, FIS, notes that some of the work FIS does with ISITC can be considered educational and prior to COVID-19 it included physical conferences.

"It also includes regular phone calls for some of the various working groups. There is a corporate actions working group where we would talk about topical events, such as oversight or just general standards and practice. For example, if there is a custodian not following a given market practice or that the investment managers are struggling as a result of a certain nuance then those things can be discussed and addressed," Brill adds.

Additionally, the group may address particularly complicated events that may need to be talked about. The group usually provides the opportunity to discuss these topics. It also includes vendors, such as FIS, but the vast majority in the group are the actual market participants, such as custodians and investment managers.

On page 27, Maddie Saghir discusses how technology is being implemented in this space to ease the processing of corporate actions.