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CAPITAL MARKETS

Hope for handling corporate actions?

The industry is shifting from evolutionary fixes to transformational change.

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DigFin moderated a webcast last week on the topic of using new tech to handle the thorny old problem of processing corporate actions. Mention "corporate actions" and you mostly have ops and tech people at financial institutions reaching for aspirin, or something stronger.

Corporate actions are anything a publicly traded company does that impacts its securities, debt or equity. Even straightforward things like a stock split come in all different flavors. There's no one cone to hold all this ice cream. Banks, brokers, fund managers, and trading venues have invested zillions into processing transactions, but corporate actions is always "the poor cousin", as Dean Chisholm, Hong Kong-based COO for Asia Pacific at Invesco, put it during the webcast. And because of the complexity, vendor solutions have been too expensive.

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But the industry can't ignore corporate actions. Alan Jones, Singapore-based head of business development for Asia at SmartStream Technologies, pointed out that corporate actions today represent the highest point of risk to operations. As firms look to scale their businesses – with new markets, new products to handle, and an ever-increasing variety of actions to handle – they need to deal with this final barrier to straight-through processing. Do that, they can then begin to add value, like analytics on top that can give investment firms, for example, a view as to how good a job their service providers are doing.

The good news is that technology is evolving to the point that automating corporate actions is looking possible. The biggest enabler is cloud computing. Cloud isn't just about saving on cost, noted David Fodor, Sydney-based head of business development for financial services at AWS. It's about scalability and flexibility. Moving to cloud computing is the precursor to handling the vast amounts of data required to come to grips with something like corporate actions.

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Cloud is just a starting point, though. One challenge is that corporate actions involves many players, said Satyan Patel, senior VP for global client development at Hong Kong Exchange. Stock markets like HKEX connect to depositories, custodian banks, securities brokers, data vendors and investment firms. And then you have the issuers themselves, whose announcements are often in the form of unstructured data (like text on a PDF). The good news is that, beyond firms' own IT spend, the finance industry is gradually adopting new standards, like ISO 20022 for messaging. That will help reduce the amount of unstructured data.

However that still leaves a lot of data of questionable integrity out there, which defies manual processing. Francis Breackevelt, chief operations head for Asia at BNY Mellon, in Singapore, said the full range of new technology needs to be brought to the fore. Whereas for years, transaction processing was an evolutionary process, he thinks the industry is at a point of major change. From simple robotics to natural-language processing and other forms of artificial intelligence, firms are on the cusp of tackling the variety of corporate announcements. They are looking at distributed-ledger technology to enable industry-wide processing.

Corporate actions processing isn't going to be solved like flipping a switch. It requires a critical mass of industry player involvement, guidance from regulators, confidence in the data, greater adoption of enabling tech like cloud, and successful implementation of A.I. Then all of that needs to be implemented to the extent great enough to bring processing costs down, a lot. But fintech is making possible the goal of automating corporate actions in a way that until now has been just a dream.