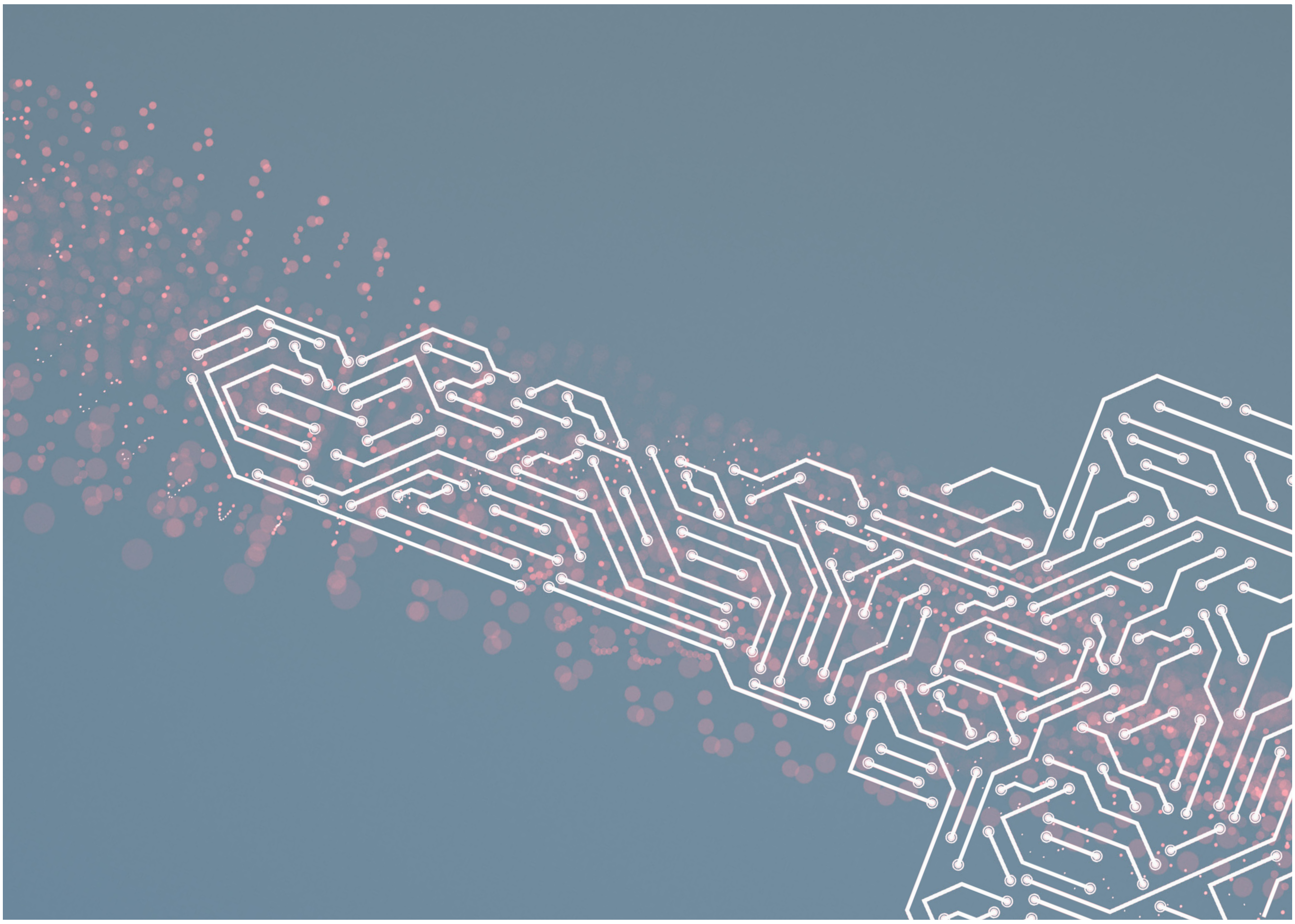
Survey Report

Corporate Actions Processing—Data Quality and Automation Are Key

September 2021



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Executive Summary

Corporate actions processing is a critical function that capital markets firms need to get right, and that—as this whitepaper illustrates—remains manually intensive for firms whose data quality and processing capabilities are suboptimal. Conversely, for firms that have invested the time and money to optimize their various corporate actions processing functions, the benefits are significant, given that accurate and efficiently processed corporate messages feed a number of downstream business processes.

Large numbers of firms have traditionally focused their data and technology spending and resource allocation on more "visible" parts of the business—the front and middle office, for example. They are now more than ever looking to develop and implement the technologies and datasets that would allow them to improve the straight-through processing (STP), transparency and scalability of their incumbent back-office platforms, given how critical those functions are to the overall efficiency of the business.

That said, one of the most acute challenges facing large numbers of firms on both sides of the industry is still the extent to which their back offices consist of a mix of proprietary and legacy technologies. That, in itself, is not necessarily a problem, given that such technologies tend to be pretty good when it comes to supporting the business processes they were initially intended to. The challenge, however, centers on firms' abilities to consume consistent, high-quality data, allowing their systems to interoperate and seamlessly share information. This deficiency comes to the fore in this paper.

This survey and whitepaper follows on the heels of last year's SIX corporate actions whitepaper, *Corporate Actions Processing – The Iterative Revolution Already Underway*,[1] and confirms a number of its key findings, while introducing a number of new themes.

It should be borne in mind, however, that the business, operational and technology trends driving the capital markets tend not to be governed by the calendar, although—as seen in recent years—business pressure continues to grow on all market participants to increase their levels of efficiency, accuracy and transparency across the business.

In addition to the aforementioned challenges around proprietary and legacy technologies and data quality issues, this whitepaper also covers the following themes:

- The large numbers of corporate actions messages still processed manually by a significant proportion of the industry
- The business drivers cited by respondents for improving their corporate actions STP (automation) rates
- The enabling role played by standards when it comes to improving corporate actions STP rates
- The asset classes and geographical locations where market participants are seeking additional information for their corporate actions messages.

1. SIX (January 2021), Corporate Actions Processing—The Iterative Revolution Already Underway, *WatersTechnology*, https://bit.ly/3C03JVk

The Whitepaper at a Glance

- Just under half of respondents (49.1%) cited legacy technology as the greatest challenge to automating corporate actions processing.
- Respondents reported that additional technical know-how was the key to overcoming corporate actions processing deficiencies, with 26 out of a possible 55 selecting that option as the most crucial.
- 40% of respondents currently process more than half of all their corporate actions manually, while 38.2% process between 20% and 50% of their corporate actions manually.
- In terms of the business drivers for increasing corporate actions STP rates, reduced operating costs emerged as the most important driver, cited by 27% of respondents.
- Data standardization to support multiple asset classes was identified as the most popular option to explain the importance of standardization in corporate actions automation. Overcoming regional differences and managing growing volumes were also popular choices.
- More than 80% of respondents are either already using the International Organization for Standardization's standard 20022 or are likely to embrace it over the next five years to help process their corporate actions.
- Europe was selected by most respondents as the region in which more corporate actions information is most needed, followed by Asia-Pacific and North America.
- In terms of asset classes that require additional corporate actions information, equities featured most prominently, followed by fixed income and funds.
- When it comes to the types of corporate actions events respondents see as posing the greatest operational challenges, income events with choice are clearly the most challenging, according to 40% of respondents.
- Almost half (47.3%) of all respondents are looking for as close as possible to real-time delivery of their corporate actions, while 30.9% are looking for intraday delivery.
- In terms of use-cases, most respondents believe regulations will dominate in the next 1–3 years, while back-office processing and front-office analytics are also expected to be prominent.
- Just under half (47.3%) of respondents believe home-working arrangements have not impacted their corporate actions handling and processing.

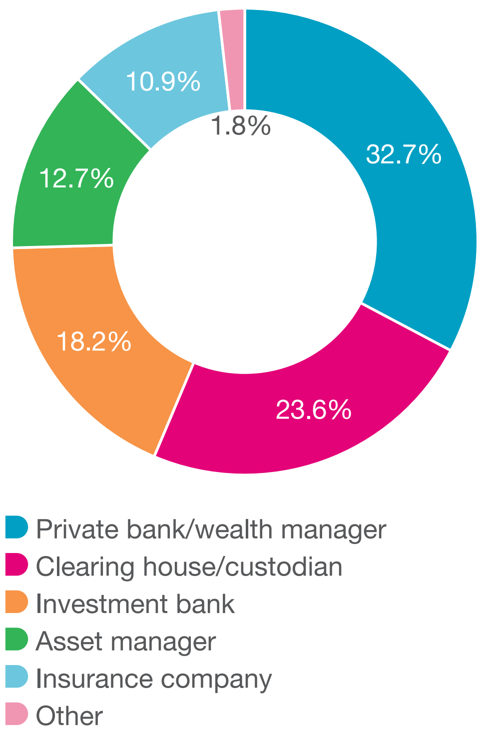
Percentages in some tables and graphs may not total 100 due to rounding.

About this Survey

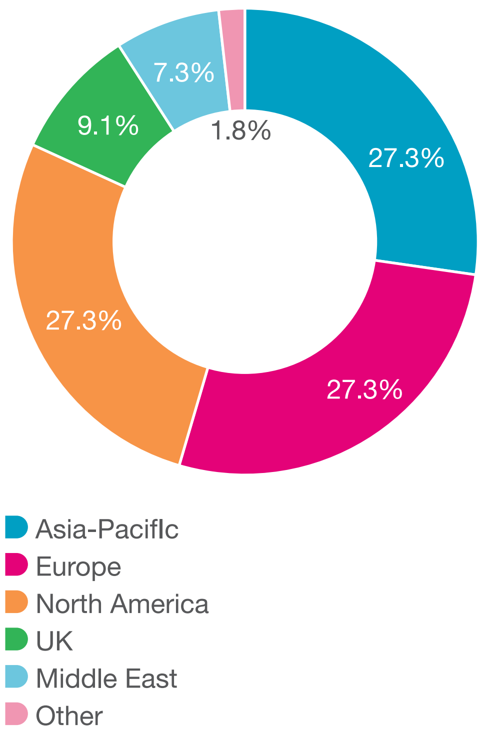
The findings from this 15-question survey are based on responses from 55 buy-side and sell-side personnel—32.7% from private banks/wealth managers; 23.6% from asset management firms or insurance companies with internal asset management functions; 23.6% from clearing houses and custodians; and 18.2% from investment banks—with corporate actions remits (see question 1). Respondents' locations were evenly split across North America, Europe and the Asia-Pacific region, each of which accounted for roughly one-third of the sample.

This study was pushed out to a broad range of contacts in *WatersTechnology*'s database and did not target any specific demographic with the view to confirming any biases.

1 What type of firm do you represent?



2 Where is your firm based?



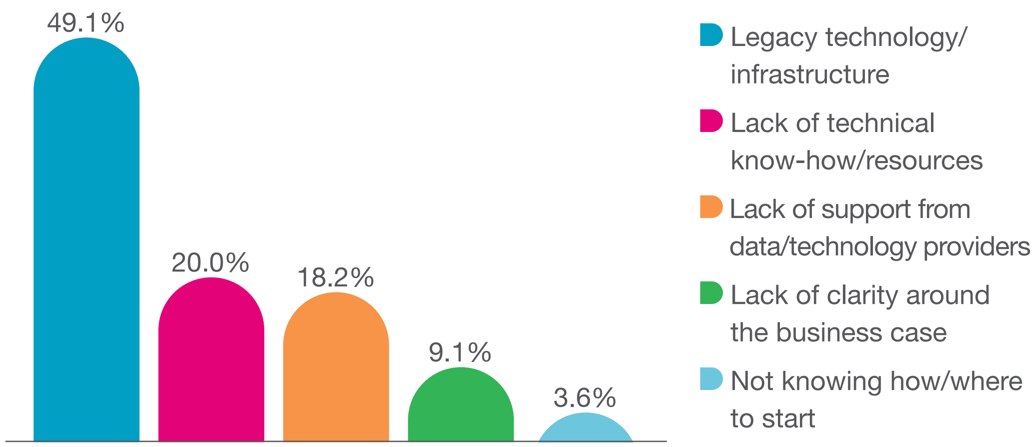
Lingering Legacy

Question 3 kicked off the survey in earnest, focusing on arguably the greatest challenge facing capital markets firms when it comes to improving STP rates of their corporate actions messages. Unsurprisingly, marginally less than half (49.1%) reported that legacy technology/infrastructure is their biggest pain point. This result is similar to that of the 2020 survey in which 51.6% cited legacy technology/infrastructure as the single greatest impediment to increasing the automation of their corporate actions processing. This is a common theme across large swaths of the capital markets, given firms' growth through mergers and acquisitions and the fact that many were forced to develop their own proprietary back-office technologies due largely to a dearth of third-party systems available on the market until relatively recently. "It is the main issue that comes up all the time when you're talking about automation," explains Laura Fuller, senior content manager at SIX. "That result is not surprising—everyone has systems that they don't want to touch. The feeling is that if it isn't broken, don't fix it."

Fuller's point is well made, although the solution to the challenge is anything but a trivial undertaking: replacing existing platforms is fiendishly complex—anyone who has managed such a project will attest to that—which means that living with legacy technologies and implementing application program interfaces to ensure at least a measure of interoperability might well be the most feasible way forward. It's not a perfect solution, nor is it elegant, but it is a solution that increasing numbers of firms are considering.

In response to a question during a recent SIX-sponsored webinar, *Overcoming Data Quality and Automation Issues—Sourcing, Processing and Managing Corporate Actions Data*, about whether legacy technologies and automating corporate actions processing are mutually exclusive, James Cunningham, European regulatory and market initiatives at BNY Mellon, said he didn't believe they are. "I don't necessarily see a trade-off between the two—what I see with this discussion is a journey that starts where we are today, which is the reality of legacy systems and technologies," he said. "So the real question is how do we move forward to a new and better world? It's very difficult to bring about wholesale transformations—often it's more reasonable to take gradual steps and a modular approach. I see that as the pragmatic way forward."

3 What is the greatest challenge facing your organization for automating its corporate actions processing?



Ranking Challenges

Question 4, the first of three 'select and rank all options' questions, asked respondents to rank four options with respect to the challenges they present market participants when it comes to overcoming automation issues. Just under half of the 55 respondents (26) selected additional technical know-how as their first (most acute) option, illustrating just how important technical knowledge (and supporting technology) is to satisfactorily address the automation conundrum. "When you have legacy technologies, you tend to also have data siloes in-house, and the people who built those legacy technologies all those years ago have either retired or moved on to new companies," explains Annelotte De Nanassy, senior product manager at SIX. "These siloes tend not to be able to communicate with each other and so you need someone with the necessary know-how to establish where all the different data points are used within the organization. There might be some fields that are used in one context for one service and in another context for a different service, and when you start moving to new technologies, you need to have identified all this beforehand so that you don't break anything."

Question 5 asked respondents to estimate the percentage of their corporate actions messages that they currently process manually within their respective firms, with 40% indicating that they process more than half of all their messages manually, while a further 38.2% process between 21% and 50% of their messages manually. In the 2020 survey, just under one-third of respondents (32.3%) indicated that they process more than 50% of all their messages manually, indicating that, if anything, the challenges around automating corporate actions processing are becoming more acute. "I think it'll be interesting to see the responses to this question next year or the year after, given what we've just come through in terms of confinement in the wake of the Covid-19 pandemic," explains De Nanassy. "We might see the emergence of new corporate actions projects," she says, in much the same way that large numbers of capital markets participants are currently in the throes of re-evaluating various business processes with the view to implementing new technologies to manage them more efficiently and cost effectively."

4 Rank the following in terms of their importance to overcoming automation issues

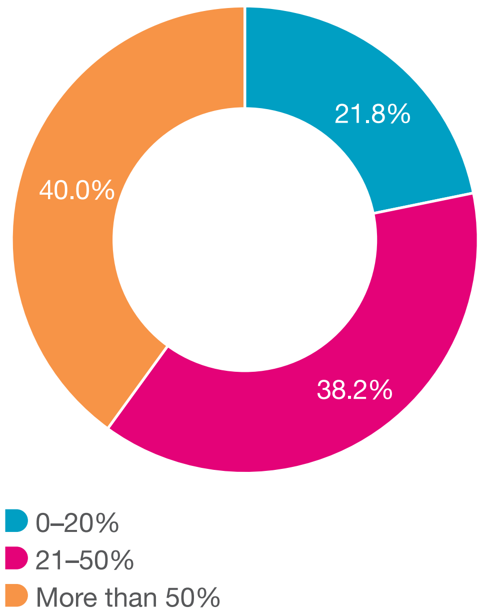
1	Additional technical know-how	Total score: 160
2	More standardization	135
3	Additional corporate actions data expertise	132
4	Introduction of cloud-based solutions for easier access to data	123

Responses were weighted and scored using a placing scale of 1st to 4th placings. Scores were aggregated with 1st placed receiving 4 points, 2nd placed receiving 3 points, 3rd placed receiving 2 points and 4th placed receiving 1 point.

Drivers

Question 6, the second select and rank all options question, focused on the drivers (tangible business benefits) firms consider when looking to enhance the automation rates of their corporate actions operations, with 15 out of a possible 55 citing reduced operating costs as the most important driver. Clearly, by increasing automation rates, firms are able to reduce manual processing, which in turn allows them to reallocate head count to focus on more complex event types. The reallocation of staff to higher-value tasks within the business has another significant benefit: surveys carried by *WatersTechnology* and other sources reveal that moving staff from manually intensive tasks to more challenging, higher-value ones increases their job satisfaction, which ultimately can lead to lower staff turnover.

5 How much of your corporate actions are processed manually?



Another significant finding from question 6 is the extent to which firms are now looking to generate insights on data for analytics. The results from last year's survey showed that generating insights finished sixth out of a possible seven options, while this year it jumped up to third, illustrating the value respondents associate with such activities.

6 What are the drivers for increased automation of corporate actions processing?

1	Reducing operating costs	Total score: 260
2	Coping with growing volumes	237
3	Generating insights on data for analytics	232
4	Improving quality of client service	222
5	Reporting and regulatory compliance	205
6	Reducing reputational risk	195
7	Losses incurred on corporate actions processing	189

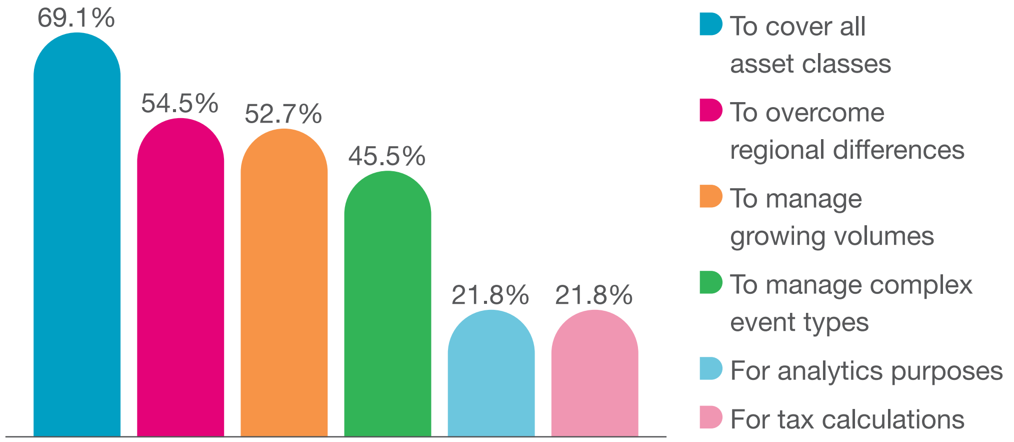
Responses were weighted and scored using a placing scale of 1st to 4th placings. Scores were aggregated with 1st placed receiving 7 points, 2nd placed receiving 6 points, 3rd placed receiving 5 points, 4th placed receiving 4 points, 5th placed receiving 3 points, 6th placed receiving 2 points and 7th placed receiving 1 point.

Question 7 shifted the focus of the survey from technology and operational issues to data standardization, asking respondents to select from seven options those that they believe are contingent on data standardization. The most popular option was asset class coverage, cited by almost 70% of respondents, while overcoming regional differences (54.5%) and managing complex event types (45.5%) also scored highly.

Question 8 maintained the standards theme by gauging respondents' use of ISO 20022 for corporate actions and, if they aren't currently using the standard, the likelihood of them embracing it in the next five years. Significantly, more than one-quarter of respondents (27.3%) are already using it to support corporate actions processing, while one-third (32.7%) who are not currently using it are planning to in the foreseeable future.

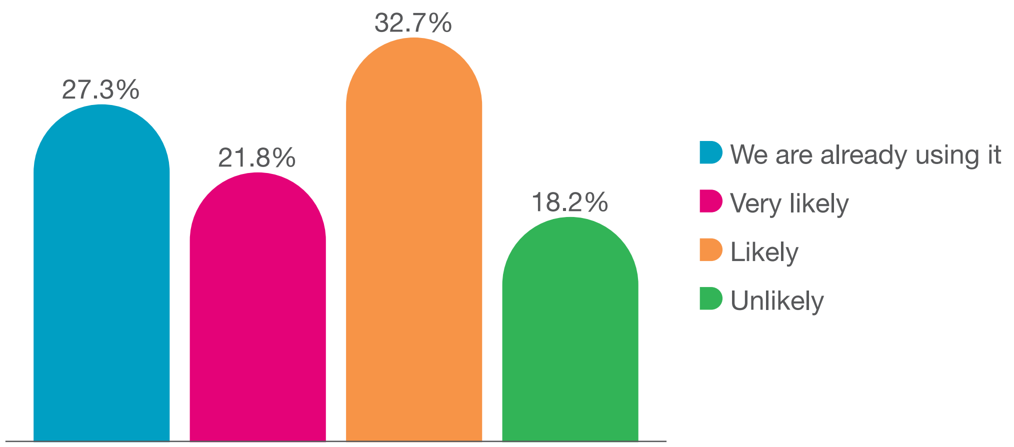
A like-for-like comparison between the 2020 and 2021 surveys reveals that the number of respondents unlikely to use ISO 20022 in the next five years has halved (from 36% in 2020 to 18.2% in 2021), a significant reduction and an encouraging move in the right direction.

7 Why is data standardization critical for corporate actions processing/automation?



Respondents were invited to select all answers that applied to them.

8 How likely is your firm to use the ISO 20022 standard for corporate actions messaging in the next five years?

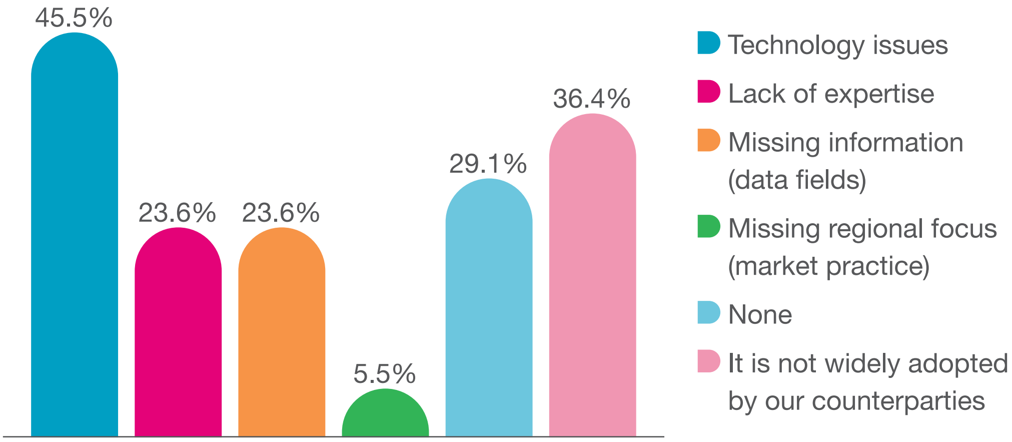


Standard Issues

Question 9 maintained the ISO 15022 focus by asking respondents if they saw any issues impacting their use of the standard in conjunction with processing their corporate actions. Technology issues were cited by almost half (45.5%), while 36.4% noted that the standard is still not widely used by their counterparties. Interestingly, almost one-third of respondents (29.1%) reported that they do not have any issues regarding the standard, illustrating the extent of its use across the industry. Clearly, the industry hasn't yet reached consensus on adopting the standard although, as previously postulated in this paper, it is moving in this direction. As with other questions in this survey, answers over the next year or two will reveal the extent to which the industry has embraced the standard and, more significantly, the rate of growth.

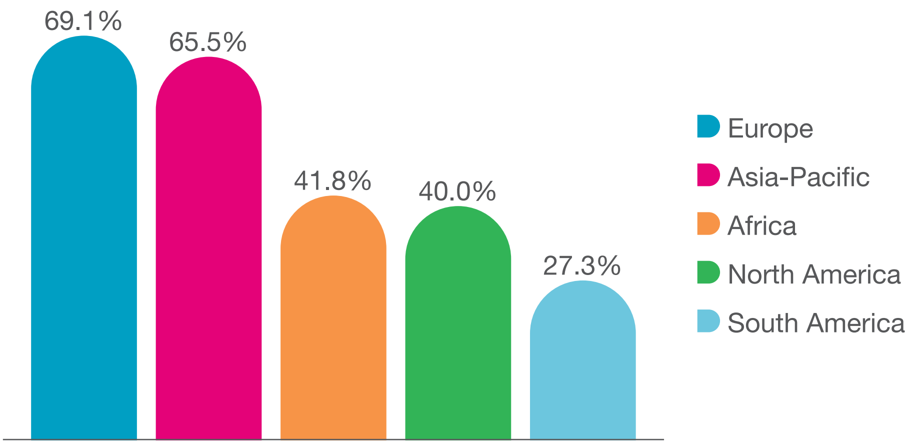
Question 10 reviewed respondents' needs for additional corporate actions information broken down by market/geography. Results show that 69.1% of respondents believe there is a need for additional corporate actions information across Europe, while across Asia-Pacific that number fell marginally to 65.5%. "The US is generally standardised,

9 Are there any issues impacting the use of ISO 15022?



Respondents were invited to select all answers that applied to them.

10 Where requires more regional corporate actions information?



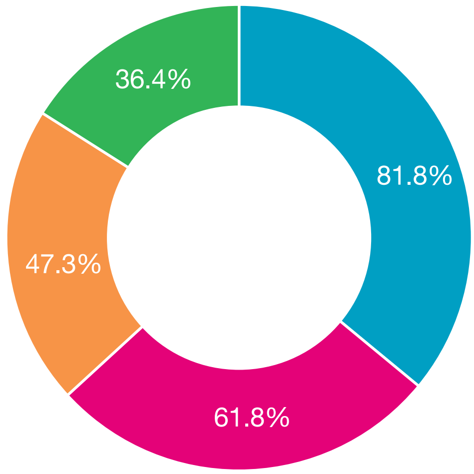
Respondents were invited to select all answers that applied to them.

whereas in Europe and Asia you have regional differences that make it more complex to fully standardise," De Nanassy explains. Fuller concurs with De Nanassy's assessment: "You just need to speak to anyone in the Securities Market Practice Group and those regional differences [across Europe] are still there," she says.

Question 11 followed on from its predecessor in terms of theme, asking respondents to identify the specific asset classes in which they believe they need additional corporate actions information. 81.8% selected equities, while fixed income (61.8%) and funds (47.3%) featured prominently.

Question 12, the last of three select all and rank questions, focused on the types of corporate action events that pose the greatest operational challenges to market participants. The breakdown of responses reveals that 40% of respondents (22 out of 55) ranked significant income events with choice (optional dividends and dividend reinvestment plans—or Drips) as the most operationally challenging, confirming that events that require instructions from the account holder represent more complex workflows and require more time to process, which in turn increases the risk for manual errors.

11 Where is there a need for more asset class-related corporate actions information?



Equities
Fixed income
Funds
Structured products

Respondents were invited to select all answers that applied to them.

12 Which corporate action event types pose the greatest operational challenges within your organization?

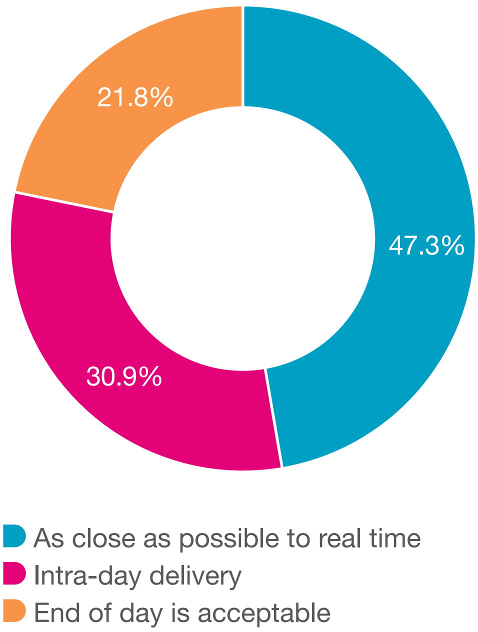
1	Income events with choice	Total score: 195
2	Mergers and acquisitions	175
3	Mandatory income events	170
4	Mandatory capital events	148
5	Optional capital events	137

Responses were weighted and scored using a placing scale of 1st to 4th placings. Scores were aggregated with 1st placed receiving 5 points, 2nd placed receiving 4 points, 3rd placed receiving 3 points, 4th placed receiving 2 points and 5th placed receiving 1 point.

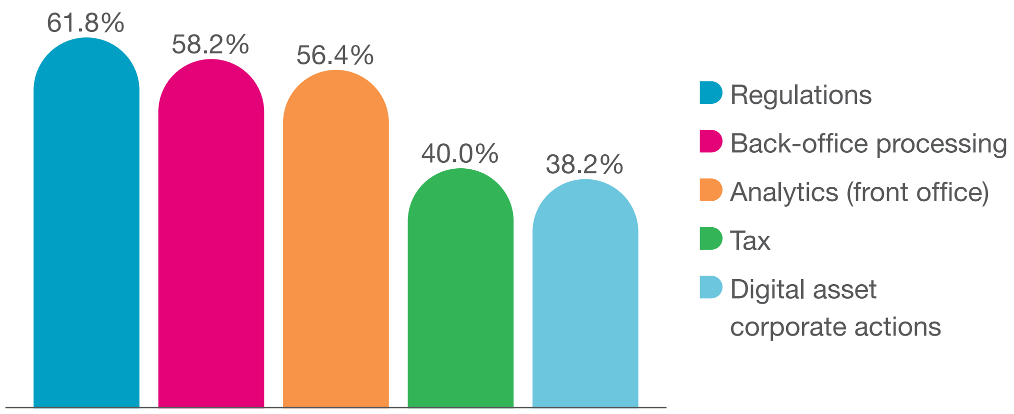
Delivery

Question 13 focused on when respondents would ideally like their corporate actions messages to be delivered to them—as close to real time as possible, intraday delivery or end-of-day delivery—a question also included in the 2020 survey. The results indicate that 47.3% of respondents are looking for as close-to-real-time delivery as possible, while just under one-third (30.9%) are looking for intraday delivery. The results from the 2020 survey showed that 45.2% of respondents were looking for close-to-real-time delivery, a remarkably consistent result compared with the 2021 survey, considering the inevitable change in respondents to the two surveys from one year to the next. There was a significant change, however, in the number of respondents looking for intraday delivery of corporate actions—30.9% in 2021, up from 12.9% in 2020. What these results reveal is that there is apparently new demand for corporate actions data delivered at various intervals during the day, although what is unclear is whether those firms looking for such delivery frequency are opting for it because they do not have the capacity to straight-through process their corporate actions and so have not opted for close-to-real-time delivery. Perhaps if they did have those processes and technologies in place they would be looking for as close-to-real-time as possible delivery? For the time being at least that remains a question for further discussion. Question 14 focused on the future use-cases (business processes) respondents anticipate will grow in importance, underpinned by corporate actions data, with regulatory considerations, back-office processing and analytics emerging as the three most popular choices.

13 What are your intraday/ real-time delivery needs for corporate actions?



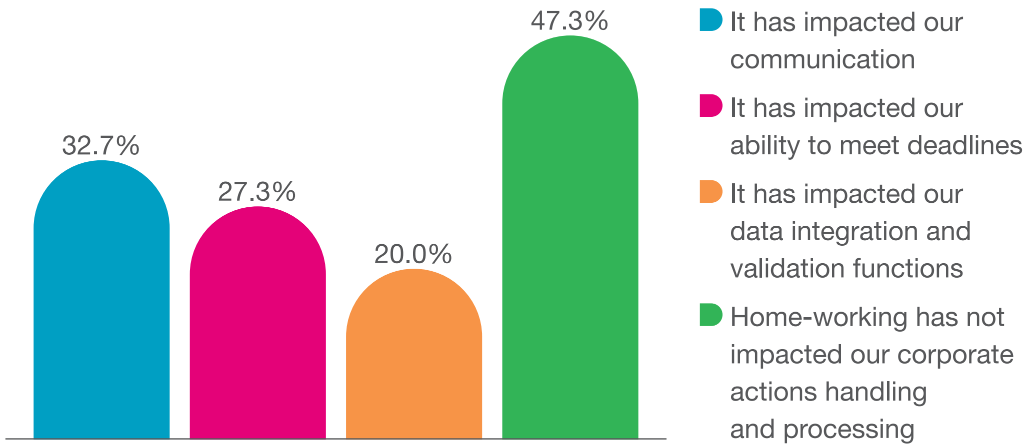
14 Which corporate actions use-cases will grow in importance in the next 1–3 years?



Respondents were invited to select all answers that applied to them.

The final question of the survey focused on what is sure to become one of the industry's defining periods: the Covid-19 pandemic and the changes it forced on the industry from the first quarter of 2020 onwards. The question asked respondents how home-working had impacted their corporate actions handling and processing, the majority of which appear not to have been too badly affected, although their communication and ability to meet deadlines had been impacted.

15 How has home-working impacted your corporate actions handling and processing?



Respondent were invited to select all answers that applied to them.

Key Takeaways

- Large volumes of corporate actions are still being processed manually, mostly due to poor/insufficient supporting technology and data. For the majority of capital markets firms, legacy applications and technologies are a fact of life, and decommissioning entire systems is often too onerous and impractical to consider. However, the industry is moving in the right direction from a technology perspective, although progress is slow for reasons highlighted above.

- High-quality data and timeliness are paramount to maximizing the automation of front- and back-office operations and handling the growing volumes and complexities of corporate action events, while simultaneously minimizing the risk of data errors.

- Market participants are looking for additional detail around their corporate actions, specifically when it comes to equities and fixed income. Geographically, Europe and Asia-Pacific are the regions in which they require the most information.

- Firms are looking for close-to-real-time delivery of corporate actions messages/ data/information where possible, assuming they have the technology and operational procedures in place to straight-through process those messages. Where firms do not have the capacity to straight-through process their corporate actions, they still require intraday delivery of their messages, possibly three or four (or more) times per day.

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