

The Bar Has Been Raised



By Brett Lancaster, vice president, DTCC Solutions and head of Global Corporate Actions

When the Depository Trust & Clearing Corporation (DTCC) began to provide global corporate actions announcement information five years ago in response to requests from our customers, the main goal was to create a single place where corporate actions data could be assembled, validated and distributed.

At that time, the goals were relatively modest – according to our charter clients, there were supposed to be less than 10,000 corporate actions per month, matched against 700,000 securities, and the service would employ about 12 operations staff, all based on the east coast of the US. But, as our customers' expectations changed, we have had to adapt, change and grow.

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Five years later, by year end 2007, the Global Corporate Action Validation Service (GCA VS) provided an average of 100,000 announcements per month, plus an additional 750,000 scheduled payments, against more than two million securities. We employ 65 operations staff across three service centres (New York, London and Shanghai), work in 16 languages, and operate every week day, round the clock, including all public holidays, except for New Year's day.

However, now we are being asked to raise the bar to another level. It is no longer enough to get accurate data on corporate action announcements from around the world from a single place any more. The need now is to get it faster, in

industry standard formats, secured by contractual service level agreements, and to give clients the assurance that the root cause of the issue is actually being addressed, once and for all.

Risky Business

For securities firms, the management of corporate actions data remains a risky and costly task. Simply getting hold of good, 'clean' data, that is comprehensive, is very challenging.

The risk exposure faced by a firm associated with a 'bad' corporate action is significant. Simply getting a date, or a rate, or a restriction wrong can cost a firm dearly. In an independent study carried out by Oxera, the risk exposure, at the industry level, was estimated at around US\$0.5 billion, per year.

At the firm level, this translates to an average actual loss of US\$0.5 million per firm, with potential trading risk of approximately US\$5 million, each year. These are average losses, and we frequently hear reports in the market of losses in the region of US\$5-20 million for an individual event.

Managing the Complexity

To further complicate matters, financial services firms and investors are seeking geographic and product diversity to stay competitive. For corporate actions, this causes more risk.

The overall growth rate for global corporate action announcements is about 5% per year. Although the US currently generates about 65% of the global corporate action announcements, the bulk of this growth is taking place in Europe, Middle East and Asia, especially from Brazil, India,

China and Russia. For these markets, extra effort is needed because the corporate action events are complex, the market practice rules are less mature and the data is less readily available.

In addition, the growth rate in 'complex' announcements, - those announcements that are not routine or mandatory, but have an elective component with differing options and payouts - is almost double the overall rate.

All of these factors and all these risks need to be managed, and firms only have two choices. Either, they manage the complexity and effort themselves, or they outsource the effort to an experienced third party.

If they do the work themselves, then independent studies, for example those carried out by CityIQ, have shown that, across a sample of hundreds of firms, both large and small, the average number of resources needed is between 15 and 20 full time equivalents (FTEs). For every firm to get hold of, and retain, this number of qualified people is, to say the least, challenging.

Alternatively, firms can mitigate this issue by engaging with a third party expert that acts as a centralised 'data scrubbing' outsourcing provider. As well as helping firms manage the risk, 'outsourcing' also enables firms to reassign operations staff to other duties.

There are two prominent outsourcing candidates, Fidelity's ActionsXchange and DTCC's GCA Validation Service, both of which provide 'scrubbed' corporate action announcement information on a range of global securities.

Raising the Bar

For GCA VS, the original objective set by

our charter clients still stands – provide a centralised source of ‘scrubbed’ corporate action announcement information, across 160 countries, and ensure timely and accurate delivery of the information driven by stringent and contractual service level agreements (SLAs) where non-performance is met with financial penalties.

However, as our clients’ business changes, then so do their expectations. Last year’s DTCC customer satisfaction survey cited the biggest request from clients was a growing ‘need for speed’. And we responded accordingly.

In June 2008, we began taking multiple intraday feeds from the Depository Trust Company (DTC), the central securities depository for the US. GCA VS used to get a file listing all events and changes to events at the end of the day, the same as DTC participants, and that list would be available to customers the next day. GCA VS now gets feeds six times a day from DTC, and that information is fed out to clients in the 15 intraday output feeds GCA VS provides its clients daily.

What it means to customers is that they can get information the same day it is announced, and GCA VS clients can now get the information before the rest of the market.

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In April 2008, we began taking information directly from the source by actively monitoring news outlets to find and electronically capture data from press releases and other communications issued directly by the issuers and their agents. The result is that GCA VS is getting the information faster than waiting for vendors.

In April 2008, we also began the re-cast of our service level agreements (SLAs), to make them much more aggressive. Originally, for the non-voluntary events, our SLA was based on getting the event

into a ‘clean’ and ‘approved’ state by ‘Important Date’ minus 7 days, regardless of how early the event was announced in the market.

The new SLA states that the service must validate the event with all data available in the market by ‘Added Date’ + 24 hours.

We have already made the changes for all of the complex events. We aim to complete the initiative by the end September 2008, and every event type will subject to the new SLA except for cash dividends and calls, which will remain at Important Date – 7 days.

The result of these changes is that our data is much more timely. Further, we are obligated to maintain this high level of performance through contractual SLAs. These changes, coupled with very low error rates, clean terms and text and a responsive help desk have not gone unnoticed, and our customers have recognised that we have raised the bar. This year’s customer satisfaction survey score reached 92%.

The Future is Bright

Not content with continuous service improvement, we have much, much bigger strategic plans to resolve the root cause of the corporate actions issue, once and for all.

The plans span three separate, but related, initiatives: DTCC’s CA re-engineering project; driving standards and XBRL.

Firstly, DTCC is undertaking its Corporate Actions Re-engineering Initiative. This is a major, multi-year, project to re-write all DTCC’s corporate action processing systems, covering announcements, elections and payments. Initially, the new system will create corporate action announcements in both ISO 15022 and XML formats, with the aim of migrating to ISO 20022.

Announcements will continue to be published in legacy formats (DIVANN, REORG, REDEM) until two years after the project goes live.

This change is important, because it ensures that all of DTCC’s participant clients, which are essentially all of the North

American market, will actively adopt and use industry standards. The first release is scheduled for 2010.

Secondly, DTCC has committed to the premise that all DTCC data should be aligned with industry standards. Accordingly, DTCC is actively working with formal standards bodies and industry associations (Swift Standards, Sifma, ISITC, ISO) to drive industry standards and market practice.

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We are helping to shape the future definition of ISO15022 and ISO20022, and will, in turn, ensure alignment with the CA re-engineering project.

Lastly, and possibly the most important, DTCC is driving issuer-based ‘data tagging’ of all key data elements by the originating issuer/agent, via XBRL. To facilitate adoption, and actively seek a regulatory endorsement from the SEC, DTCC has taken a seat on the XBRL board.

This initiative will ensure that all US corporate action announcements are sourced directly from the source, in machine readable format, according to the industry standard. This will fundamentally change the corporate action industry by removing the root cause of the issue and the result will be extremely high STP rates, lower rate of manual exceptions and lower risk.

There are still several years of work ahead before this becomes a reality. XBRL tagging for corporate actions ultimately could even make services like GCA VS obsolete, or at least much different in terms of its current value proposition. But, from an industry perspective, it is the right thing to do.

Meanwhile, we are continuing to focus on new requests from customers, such as a browser-only product, enhancements to the user interface such as ‘watch-lists’, and e-mail alerts for ‘late’ announcements.

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