

Improving Issuer-to-Investor Communication: Corporate Actions

Reducing Risk and Cost through Technology Standards



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This background supplement has been prepared for Sibos by DTCC, SWIFT and XBRL US. It provides an overview of the corporate actions process and the Issuer-to-Investor, Corporate Actions initiative that the three organizations launched in May 2009 to address the challenges that impact corporate actions communications.

OUR MISSION

DTCC, SWIFT and XBRL US have joined forces to improve issuer-to-investor communications for corporate action announcements in the U.S. market.

The goal is to promote straight-through processing (STP) of information from issuers through to investors and substantially reduce the market risks and costs associated with the corporate action process on a global basis.

“THROUGH THIS JOINT INITIATIVE, we have an opportunity, at last, to bring clarity to the often manual, labor intensive and unnecessarily risky business of corporate actions processing. This is especially critical today when the market is seeking greater transparency of issuer information.”

Donald F. Donahue, Chairman & CEO,
The Depository Trust & Clearing Corporation (DTCC).

“OUR INITIATIVE WILL INCREASE THE RETURN on investment for the industry’s existing market infrastructures by bringing greater efficiencies and reducing the costs and risks associated with processing corporate actions. Manual interpretation, re-keying and manual exceptions in corporate action processing will be significantly reduced.”

Chris Church, CEO of Americas and Global Head of Securities at SWIFT

“DTCC AND SWIFT ARE LEADING ON THIS ISSUE to drive support for the adoption of XBRL in the U.S. and dramatically improve the corporate actions process throughout the U.S. financial supply chain and, ultimately, in the global marketplace. This initiative builds on our unified digital dictionary built around US GAAP and it leverages XBRL’s momentum in the U.S. financial markets.”

Mark Bolgiano, President and CEO, XBRL US.

The Challenge of Corporate Actions Communication

Corporate actions processing is fraught with problems. Many of these problems derive from the complexity of delivering information from issuers or offerors on corporate actions to the ultimate investors. The current process does not rely on standard information generated electronically by issuers/offerors. Instead, the investors' intermediaries are responsible for manually generating the electronic records of corporate actions details that investors need. As a consequence, intermediaries create multiple versions of the same information and pass these to subsequent intermediaries along the chain. The creation of each new version inherently incorporates the possibility of inaccuracies, event misidentification and delays; these errors are worsened with the keying and rekeying of information as it passes among the intermediaries.

With over 200,000 corporate action events (such as dividends, bond redemptions, rights offerings and mergers) announced by issuers or offerors in 2008 in the U.S., many requiring multiple documents issued over a period of time, there are substantial costs and risks arising from this manual conversion of issuer announcement documents into electronic versions for investors. These costs and risks, for many years, have been incurred by the owners of the securities and by the financial services industry, with a persistent negative impact on investors' returns, investor satisfaction and market efficiency.

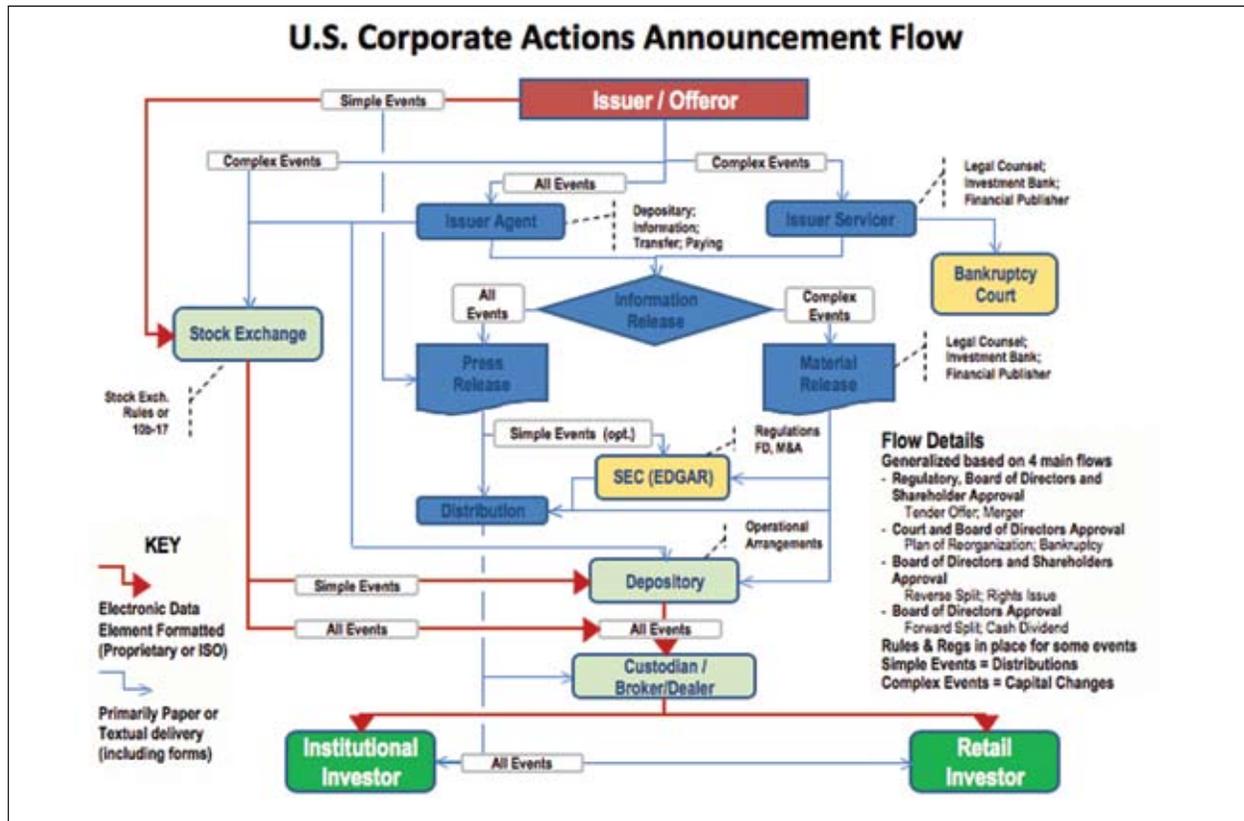
In the current economic climate, lack of a standardized way to generate corporate actions 'data' immediately at the time of an issuer/offeror's announcement effectively delays the communication of this information to investors, burdens their intermediaries, and maximizes the possibility for erroneous or inaccurate communication of the necessary details.

The Current Corporate Actions Process

A single corporate action has an enormous impact on numerous players in the securities processing and investment chain. Ultimately, it is critical to providing investors with the information they need to make decisions, where needed, and to ensure that shareholder portfolios are properly managed. Although a data standard (ISO 15022 and a soon to be released update ISO 20022) is in widespread use today by custodians, stock markets, asset managers, clearing houses and others, that standard is not consistently applied and it is not used at all by the most important link in the chain — the issuer.

Once the issuer publishes a press release or a prospectus, multiple stakeholders access the data, translate it and take action based on their own interpretation of what the public company wants to convey.

As the following diagram illustrates, the path of a corporate action announcement is varied and contains many steps. Therefore, it is not surprising that a solution that meets everyone’s needs has been elusive.



How can XBRL technology improve issuer-to-investor corporate actions communications?

The plan for transforming issuer-to-investor corporate actions communications has been implemented by DTCC, SWIFT and XBRL US to address the issues surrounding manual processing of source data. It tackles the risks and costs associated with corporate actions communications by improving the industry's ability to achieve STP for U.S. corporate action announcements, enabling greater transparency, accuracy and security for all stakeholders.

The joint plan, supported by ISO and industry groups, looks to build on the existing ISO standards that have already brought important efficiencies in the corporate actions process by integrating the benefits of XBRL electronic data tagging technology, currently used by public issuers in the U.S., to streamline the processing of corporate action announcements. It calls for the issuer to expand usage of this same technology into corporate actions and includes the following steps:

First, DTCC, SWIFT and XBRL US will support implementation of XBRL for corporate actions data:

- DTCC, SWIFT and XBRL US are building an XBRL corporate actions taxonomy based on, and aligned with, the ISO 20022 repository elements. This will enable issuers to electronically 'tag' data when preparing a prospectus or other form of announcement for a corporate action. The "tagged" data can then be readily transformed into the ISO format for consumption by intermediaries servicing investors in the market;
- DTCC, SWIFT and XBRL US will leverage the expanding adoption of XBRL in the U.S., a result of the SEC mandate for GAAP quarterly financial reporting starting with the largest 500 public companies in June 2009, to promote the implementation of the XBRL corporate actions taxonomy, and
- DTCC will also create a 'unique ID' to be associated with each corporate action announcement upon its creation, thus facilitating the identification of an event between all parties.

Second, DTCC and SWIFT will work together to implement the new ISO 20022 corporate action messages:

- DTCC, as an integral part of its wider 'Corporate Actions Re-engineering' project, will adopt ISO 20022 beginning with corporate actions announcement messages;
- DTCC will continue to contribute to the ISO 20022 standard process, working with SWIFT to facilitate inclusion of data elements that are needed for U.S. corporate actions. As part of this process, DTCC, SWIFT and XBRL US will work together to ensure the XBRL corporate actions taxonomy and the ISO 20022 corporate actions data repository remain fully synchronized with each other;

- All corporate action announcements published from DTCC will be made available in ISO 20022 format, starting in 2010. All existing legacy publication files will ultimately be decommissioned (anticipated not later than 2015), converting DTCC participants and clients to ISO 20022 for these communications, and
- SWIFT will leverage these efforts to roll out the new ISO 20022 corporate action messages on a global basis, with the intent to decommission the equivalent ISO 15022 messages at a future date yet to be determined.

What are the benefits to the industry?

The benefits of this initiative will be significant as it aims to fundamentally change the corporate actions process, by capturing data from the “source” in a standard format.

Issuers: The intent and content of the originating offer will be clear to the investor, without fear of misinterpretation due to manual manipulation. The details will be conveyed effectively, improving the transparency and reducing the latency of issuer-investor communication. Issuers and their agents will have to make only marginal additional efforts. There are numerous technology tools available for creation and analytics.

Financial Services Industry: The manual interpretation, re-keying and manual exceptions will be significantly lessened. This reduces risk and cost, providing greater STP and efficiency to the marketplace.

Investors: The plan allows investors to make timely decisions with confidence that the information is accurate, since the data comes directly from the issuing source without manual intervention or interpretation by third parties. By reducing the communication latency, the investor will have more opportunity to make an informed decision on an event with the ability to start earlier and respond closer to the deadline.

What role do ISO standards play in corporate actions messaging?

ISO 20022 is a business-model-based standard process for the development of messages for the international financial services industry. The standard:

- Covers the financial services industry, not just securities
- Utilizes industry-led approval and development processes
- Models business processes to develop messages
- Uses industry standard modeling and messaging tools

The fact that ISO 20022 is an international standard is important because the financial services industry is global and must support cross-border transactions, more so now than ever before.

ISO standards supporting corporate actions cover the processes of notification of a corporate action event, the instructing of elections for events with choices of benefits or participation, status updates on corporate actions processing and confirmation of effects on the investor's securities or cash positions resulting from corporate actions. These messages primarily are exchanges among central securities depositories, intermediaries such as custodian banks, broker dealers and investment managers.

ISO 20022 messages also exist to cover communication and processing between a central securities depository and issuer agents/registrars within a market.

There is also a suite of messaging covering the proxy voting space for use by issuer companies, their agents, intermediaries and market infrastructures.

SWIFT has been heavily involved in the establishment and implementation of the ISO 20022 infrastructure. SWIFT uses the ISO 20022 modeling methodology in its standards development and promotes its adoption globally. SWIFT has a specific role as the Registration Authority, where it acts as the guardian of ISO 20022's integrity.

How does XBRL data tagging streamline the corporate actions process?

XBRL is a technology language for the electronic communication of business and financial data and is being implemented worldwide. XBRL-formatted documents enable greater efficiency, improved accuracy and reliability as well as cost savings to those involved in supplying and using financial and business information data.

Based on XML, XBRL has the ability to “tag” or code each element on a financial or business report with information such as description, units and currency for easy identification by users. Elements are grouped together into a collection of financial and business reporting terms called a “taxonomy”. XBRL can be extended so that “custom” terms can be created for unique reporting situations.

To demonstrate how the corporate actions process can be streamlined and made more effective through the use of consistently applied data and technology standards, XBRL US developed a prototype collection of terms (called a taxonomy) to articulate the data collected and distributed for a merger action. Working closely with DTCC and SWIFT, the prototype taxonomy complies with the ISO 20022 standard for financial transactions and contains around 80 core elements that describe a merger, e.g., effective date, number of shares to be issued, etc.

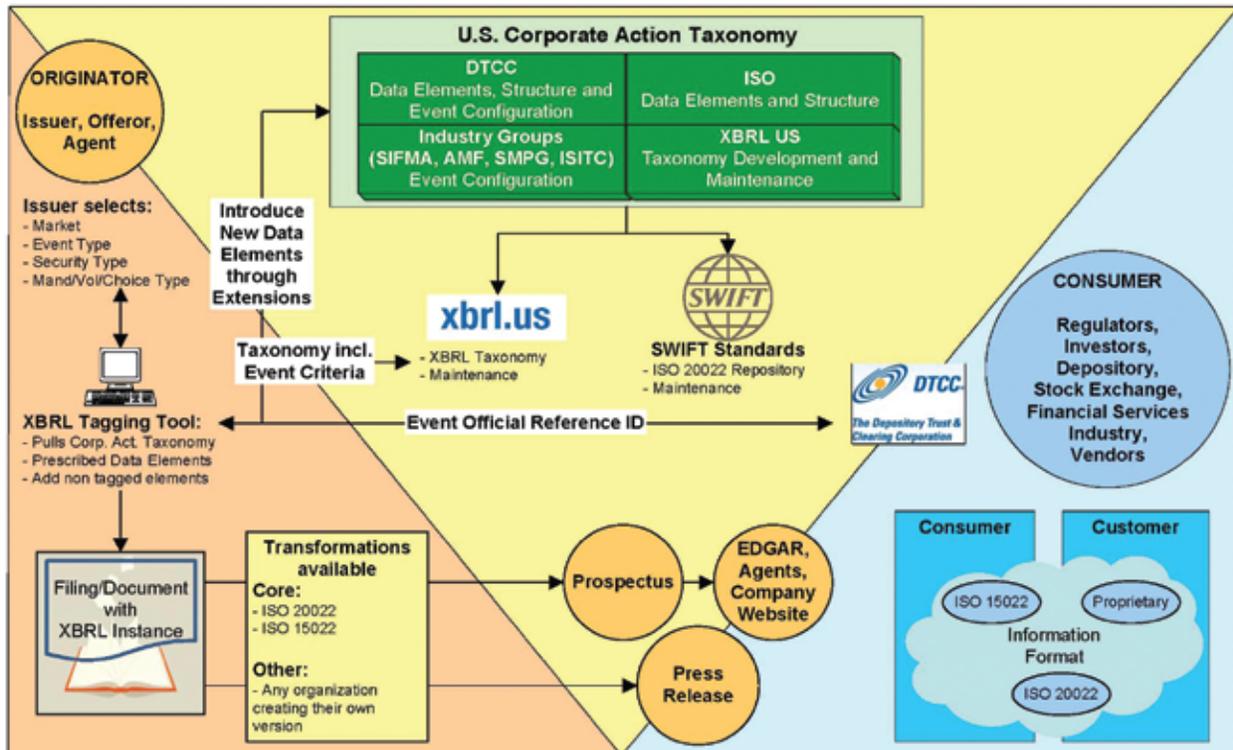
This initial prototype will be expanded to cover all corporate action types by Fall 2009. It will cover approximately 55 events, e.g., tender offer, dividend announcement, stock split. Each “event” will have underlying elements associated with it which could range from 10 to 100 elements, depending on the complexity of the event. It is expected to contain approximately 200 core elements.

Going Forward

Tomorrow’s corporate action announcement process should implement ISO 20022, XBRL and a unique ID.

The XBRL Corporate Actions Taxonomy will be based upon the ISO 20022 business model and data dictionary, which is maintained by ISO 20022’s Registration Authority, SWIFT, and supported by national and global market practice groups. Once the taxonomy is completed, issuers (or their agents) will be able to create their press release, prospectus or letter of transmittal in XBRL format, clearly indicating the market, event type, security type and whether the offer is mandatory or voluntary. All of the information that the issuer has “tagged” or identified within their document will be “machine readable” and can be extracted, searched on and consumed by the stock market, custodian, depository, transfer agent and, ultimately, the investor. Because the taxonomy is developed following the ISO 20022 standard, the data will be available in a familiar format to all users.

In addition, the process also includes the tagging of the corporate action announcement with a “unique ID” which will explicitly label the event, thus eliminating ambiguity in the the identification of an event between parties. DTCC is implementing a registration process that issues the unique ID and works seamlessly with XBRL.



Joining the Initiative

DTCC, SWIFT and XBRL US will coordinate the corporate actions initiative, which will include working with various industry bodies. Stakeholder groups are already being established for each of the constituencies in the corporate actions chain. If you would like to get involved, please contact:

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About DTCC

The Depository Trust & Clearing Corporation (DTCC), through its subsidiaries, provides clearance, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments and over-the-counter derivatives. In addition, DTCC is a leading processor of mutual funds and insurance transactions, linking funds and carriers with financial firms and third parties who market these products. DTCC's depository provides custody and asset servicing for more than 3.5 million securities issues from the United States and 117 other countries and territories, valued at \$27.6 trillion. Last year, DTCC settled more than \$1.88 quadrillion in securities transactions. DTCC has operating facilities and data centers in multiple locations in the United States and overseas. For more information on DTCC, visit www.dtcc.com.

About SWIFT

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect over 8,500 banking organisations, securities institutions and corporate customers in more than 200 countries. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest. For more information, please refer to our website www.swift.com.

About XBRL US

XBRL US is the non-profit consortium for XML business reporting standards in the United States and is a jurisdiction of XBRL International. It represents the business information supply chain, including accounting firms, software companies, financial databases, financial printers and government agencies. Its mission is to support the implementation of XML business reporting standards through the development of taxonomies relevant for use by US public and private sectors, working with a goal of interoperability between sectors, and by promoting adoption of these taxonomies through the collaboration of all business reporting supply chain participants. XBRL US has developed taxonomies to support U.S. GAAP and common reporting practices under a contract with the Securities and Exchange Commission. The XBRL US GAAP Taxonomies are available for review at <http://xbrl.us/taxonomies/Pages/US-GAAP2009.aspx>. For more information about XBRL US, please visit www.xbrl.us.

