

How Merrill Lynch Cut Costs by Putting Everyone on the Same Page

By Lisa Argento

Merrill Lynch moved corporate actions to the top of its operations and services agenda in 2003 with the launch of the firm's Global Corporate Actions Renewal initiative.

Among the primary objectives: establish a single global repository of quality corporate action announcements, provide the data to systems and users firmwide, improve the technology for notifying clients about corporate actions and lower the cost of managing corporate actions announcements.

Corporate actions are known to be among the most risky and challenging transactions to handle in the securities business. Every day, financial institutions are flooded with millions of faxes, phone calls, e-mails and letters carrying news of rights issues, tender offers, conversions, takeovers, mergers, early redemptions, optional dividends and other event types.

"Before this renewal initiative, Merrill Lynch had various departments worldwide looking at different data from multiple information sources on the same corporate action

event," said Brian Urkowitz, first vice president, Global Transaction & Custody Services, Merrill Lynch. "We knew we had to figure out a way to rationalize our disparate information sources and eliminate redundancies, while managing costs. Essentially, we needed to put everyone on the same page, and do it on a global basis."

A Big Win

In early 2004, the firm took a major step toward advancing its corporate actions initiative when Merrill Lynch International, based in London, became the first user of a new corporate action event repository that is now used on a global basis across Merrill Lynch.

The primary source of information for the repository is DTCC's Global Corporate Action (GCA) Validation Service, which provides comprehensive, accurate and timely corporate action information for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas.

The service analyzes data through an intricate process of comparing, consolidating, enriching and verifying information – generally referred to in the industry as "scrubbing."

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Merrill Lynch at a Glance

Merrill Lynch is one of the world's leading financial management and advisory companies, with offices in 36 countries and total client assets of approximately \$1.6 trillion. As an investment bank, it is a leading global underwriter of debt and equity securities and strategic advisor to corporations, governments, institutions and individuals worldwide. Through Merrill Lynch Investment Managers, the company is one of the world's largest managers of financial assets. Firmwide, assets under management total \$479 billion.

mation used across the organization,” said Urkowitz.

“With GCA Validation as our single source of corporate action information globally, we’ve been able to reduce our expenses significantly by eliminating redundancies and manual, time-consuming processes. We’ve also been able to eliminate the internal disagreements that would result from our use of different information sources,” said Urkowitz

In June 2005, the project achieved a milestone when the repository went live across the core retail and institutional businesses of Merrill Lynch, Pierce, Fenner & Smith. Today, 22 major processing platforms in the United States, Europe and Asia-Pacific rely on the new event repository. This includes Merrill Lynch’s prime broker business, trading desks, derivatives desks, processing systems and customer notification systems.

Straight Through to Trading

Timely and accurate corporate action information is invaluable for the front-office. And Merrill Lynch traders are one of the primary users of corporate action information.

Use of GCA information also ensures internally consistent data across Merrill Lynch’s departments and offices

deliver corporate action information so it’s more intertwined with their trading tools,” added Urkowitz. “Traders don’t have to go someplace else to look for information.”

Risky and Complex

At the front end, there are two big risks around corporate action information, according to Urkowitz. “First is not finding out about an event until it’s too late to take action. The second is relying on incorrect data, whether it’s a wrong rate, date or some other misinformation.”

In terms of risk, the ripple effect of erroneous information across Merrill Lynch’s large, diversified customer base creates an enormous challenge. “A problem with corporate action information does not impact just one client,” said Urkowitz. “At Merrill Lynch, it’s multiplied by thousands of our customers, maybe even hundreds of thousands. A single mistake has the potential to have an enormous impact – in terms of both financial risk and customer service.”

“We have to get the information right at the front end because deadlines are tight, and we’re processing a huge base of accounts,” said Joseph Covello, director, Product Development, Transaction & Custody Services, Merrill Lynch.

The sheer volume of corporate actions is increasing, says Urkowitz, but it’s the growing sophistication of events that is most challenging.

“Corporate actions are just harder these days – harder to understand, and harder to explain to our clients. And this complexity means there is more chance of making a mistake,” said Urkowitz.

Covello agrees, “When it comes to voluntary corporate actions, there are so many flavors. There are all sorts of terms, conditions, participation rights, holding restrictions and deadlines.”

“It used to be a company would issue its shareholders rights to buy more stock at a lower price. The investor either chose to buy more shares at a specific price or not. Today, rights issues are much more complex, giving shareholders multiple options,” said Urkowitz. “And it’s up to



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globally. “Now, our traders are getting corporate action information from the same data source that is driving processing, which makes for a cleaner, straight-through process overall throughout the company,” said Urkowitz.

Ease of access is another advantage. “We’ve been able to

us to disseminate the information to clients in a way they can easily comprehend.”

Rationalizing Processes

Merrill Lynch is also leveraging the new repository system externally to streamline communications with customers. The firm uses the GCA information from the repository to drive client notifications, so that an announcement record passes straight through to their clients.

“As part of this initiative, we reconfigured our entire notification system, and completely streamlined the process globally,” said Covello. “Now, Merrill Lynch delivers information in a structured, standardized format. Before this, our process was fragmented.”

“We saw the GCA Validation Service as a tremendous opportunity to rationalize our process and our infrastructure,” said Urkowitz. “And the project dovetailed nicely into the renewal initiative we already had under way.”

Merrill Lynch did a comprehensive assessment and business case of the GCA offering, says Covello. “We considered continuing to do the work ourselves, but our business case pointed us to going with the GCA Validation Service,” he added.

According to Covello, the “custodian compare” feature is a very attractive part of the GCA Validation Service. With this feature, the service compares the GCA composite record against announcement notifications from the broker/dealer’s custodians, eliminating this processing step and saving time for Merrill Lynch.

Cultivating Collaboration

Merrill Lynch was one of the first users to sign on to the GCA Validation Service, having worked with DTCC during the development phase.

“We worked side-by-side with Merrill Lynch and our

other early customers, hammering out the details associated with the way certain corporate action events are announced,” said Chad Richman, DTCC GCA product management director. “We continue to have an open dialogue with our customers to ensure the GCA Validation Service meets their needs.”

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“We’ve tackled some really tough issues,” said Covello, who’s been involved since day one of the effort with DTCC, “and invested a lot of time working with the GCA team. And now, we’re really starting to see the payoff in terms of GCA’s benefits.”

An advisory group, which counsels the GCA Validation Service on overall strategy, continues to guide the service, while a working group focuses on the more specific aspects of it.

“What’s been unique about the GCA project is that it brought together key players that are competitors in the industry to come up with a better way,” said Urkowitz, who is a member of the GCA Advisory Committee. “The process has been very collaborative, and we’ve all shared best practices.”

“Our users have been involved every step of the way,” said James Femia, DTCC managing director and head of the company’s Global Corporate Actions business, “from our strategy on opening a GCA service center in Asia, to the development of a custodian compare feature, to the creation of announcement templates.”

A Global M&A Wave

The GCA Validation Service created 900,000 announcement records in 2004, its first full year of operation. Close to 30% of these announcements involved securities outside the U.S.

With the opening of the Shanghai office at the end of 2004, GCA became the first corporate actions service of its kind with a global footprint. Collectively, GCA's cross-border

team of 60 specialists – 16 in New York, 14 in London and 30 in Shanghai – speak 16 languages and have in-depth knowledge of corporate actions in their respective regions. The service operates 24 hours a day, six days a week, shutting down for only one business day a year: January 1.

“The need for this kind of cross-border coverage reflects just how global the corporate actions business is these days,” said Urkowitz. “Today, we have Latin American companies bidding for U.S. companies, Italian businesses merging with German businesses. And our customers across the globe are affected by these deals. Borders don't exist when it comes to these transactions.”

“For us, this project's success is a fantastic display of global teamwork,” said Covello. “By moving to a single source of corporate action announcements through DTCC, we've been able to drive down costs and ensure the reliability of information used across multiple markets and customer segments globally.”



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2 Y E A R S I N A R O W

DTCC: Voted Best

Corporate Actions Solutions Provider.

Voters from five continents chose the Global Corporate Action (GCA) Validation Service as the best solution to provide comprehensive, accurate and timely corporate action information.



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