

# Global Corporate Actions

The Depository Trust & Clearing Corporation

## UBS Architects Innovative Corporate Action Solution

By Lisa Argento

UBS is one of the world's leading financial firms, combining financial strength with a reputation for innovation and a global culture that embraces change.

UBS is the world's largest wealth manager, a premier investment banking and securities firm, and one of the largest global asset managers. In Switzerland, it is the market leader in retail and commercial banking. UBS, headquartered in Zurich and Basel, employs slightly more than 66,000 people, and has operations in over 50 countries and in all major financial centers.

Like all global securities firms, UBS deals with the challenges and complexities of corporate actions like rights offers, elective dividends, stock splits and tender offers every day. This involves managing vast amounts of information from a range of different sources worldwide, and then getting it into the right people's hands at UBS as quickly as possible.

In July 2003, UBS unveiled an enterprise-wide corporate action event notification system aimed at its traders, account managers, relationship managers, money managers and operations professionals. This system, which was developed in a compressed timeframe of less than six months, is known as EPIC, or Event Processing Information and Control. EPIC was built to help manage the risk of handling corporate actions, and is also viewed as one step along the way to a straight-through processing model for corporate actions at UBS.

"With EPIC, UBS took a groundbreaking step forward in the corporate actions arena. One of the key elements in our plan for EPIC is integrating announcement information from DTCC's GCA [Global Corporate Action] Validation Service," said James McDade, executive director, Operations, UBS Investment Bank. "This allows us to eliminate the manual, cumbersome process of reconciling

notifications from multiple sources, but more importantly, it enhances our confidence in the quality of the corporate action information we receive."

The GCA Validation Service, which was launched in 2003, provides a highly automated, standardized source of accurate, comprehensive and timely corporate action information. It analyzes data through an intricate process of mapping, normalizing and consolidating information – generally referred to in the industry as "scrubbing" – from a variety of information providers.

The service, which is provided by Global Asset Solutions LLC, a wholly owned subsidiary of

DTCC, offers customers global coverage, handling securities traded in the Americas, Europe and Asia.

"For us, to get information in a single format that's sensible and structured is a great benefit," continues McDade.

"UBS is unique in the way it's using information from the GCA Validation Service," said Michael Molloy, DTCC vice president and relationship manager for UBS's account. "UBS has put the information in the hands of the front



UBS' trading floor in Stamford, Connecticut, is the world's largest at 103,000 square feet, approximately the size of two football fields.

office, and also delivered an integrated technology solution across the organization.”

## Bridging the Gap

Information about corporate actions, especially voluntary offers that are deadline-driven, is critical for the front and back office. The back office requires information to handle processing and execute elections. Traders in the front office need information as early as possible so they can be in a position to seize profitable trading opportunities and money managers need it to make sound investment decisions to buy or sell securities.

According to McDade, “A particular trading desk may have a strategy that is impacted by a corporate action event on a specific security. And if notification is not communicated in a timely and precise manner, the

automation. Clearly, that is changing given the industry’s emphasis on managing operational risk, and the efforts of the SIA’s Corporate Action Division to automate and standardize corporate action processing.”

## Risky Business

Corporate actions are known to be among the most challenging and risk-prone areas in securities processing globally. Conflicting and incomplete announcement information, incorrect data and late notifications are common, and can result in delayed payments, market risk, loss of interest, or a missed opportunity capable of causing significant financial loss.

Moreover, each corporate action has a multiplier effect. A single event may involve hundreds of financial institutions, and result in tens of thousands of

communications sent, and/or cash or share payments allocated to investors worldwide.

“If you are in the securities business, you have to deal with corporate actions,” said McDade. “This isn’t specific to UBS or a couple of firms in the business; corporate actions take place all across the industry worldwide. A simple mistake like a wrong rate, wrong date or even a decimal point in the wrong place may have a monumental impact on an organization’s P&L [profit & loss].”

## Accurate Information is the Key

In today’s complex global marketplace, obtaining accurate, comprehensive corporate action information is a tremendous challenge. Firms typically collect information from many sources, including information providers, custodians, depositories and exchanges, as well as newspapers and the Web. They then go through the labor-intensive and time-consuming task of reconciling and cleansing the data.

The GCA Validation Service is aimed at eliminating the duplication of effort to clean up the information that exists today in the industry.

“In between the original sources of the announcement and us as an institution, the data gets reformatted and errors creep into the information,” said Simon Leonard, EPIC’s project manager. “By the time it gets to us, it’s often not in the best shape.”

“Before we began receiving information from GCA

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downstream impact could be very negative.”

“Our investment in EPIC really comes down to managing risk and distributing consistent, timely and accurate corporate action information to the UBS organization globally,” said Ernest A. Pittarelli, managing director and head of operations for the Americas for UBS. “This effort is not just a cost-savings exercise, but a value proposition for our organization. EPIC allows all of our staff across the globe to have access to the same data at their desktop.”

Pittarelli who also is chairman of the Securities Industry Association’s (SIA) Securities Operations Committee observed, “As an industry, we’ve put a great deal of resources toward automating the clearance and settlement of trades. However, it’s safe to say that the same level of resources have not been allocated to corporate actions

Validation, sometimes we got three or four versions of the same announcement,” said Leonard. “The information came in different formats, using different terms, and at varying levels of quality.”

## A Case of Ideal Timing

According to McDade, when UBS starting talking with DTCC about this project in early 2003, “we were at a point with EPIC where we really needed to put the rest of the pieces together. For us, the timing was serendipity.”

In February 2003, UBS joined other major global securities firms, which were already working closely with DTCC, to help define requirements for GCA.

“There’s no question, it’s been a big investment of our time,” said McDade, “but it’s also been a tremendous learning process. We developed some great relationships with counterparts at the other firms, and I’d venture to say we’ve all been able to refine our processes.”

“It’s been an exciting and dynamic development project, with many moving parts.” said David Loffredo, senior manager at Accenture, which worked with DTCC to build the GCA Validation Service. “We had the challenge of providing a truly global corporate action announcement solution, taking into account all of the complexities that are inherent in corporate actions.”

Loffredo believes that what really made the project a success was the support of the initial users of the service, such as UBS. “Although UBS and the other firms we worked with are competitors in the marketplace, they contributed their different perspectives in an effort to launch an industry-wide solution for corporate action announcements,” he said.

“One of the really good ideas early on was the distinction between the working group and the advisory group,” said McDade, who continues to participate in monthly advisory group meetings. “On the working group, we have experts in the room discussing detailed aspects of the service, while the advisory group oversees the process as a whole and resolves higher-level issues. With this structure, neither group gets bogged down.”

## Release 2

UBS met its deadline of going live with GCA Validation service on July 1, 2003, and in early 2004, UBS will begin using Release 2 of the service, which provides custodian verification capabilities. With this new feature, the GCA Validation service compares the composite record

generated by the system against announcement notifications from UBS’ custodians.

Given that custodians, sub-custodians and other agents play a vital role providing corporate action information, especially for non-U.S. events, UBS looks forward to upgrading EPIC with Release 2.

“Release 2 is where we’ll see a real transformation in the way we do things,” said McDade. “It’s what will make the GCA Validation Service the truly comprehensive global outsourcing solution we envision, and what differentiates it from anything offered by other providers.”

## Looking Ahead

Discussing the future of EPIC and the GCA Validation Service, McDade said he expects to see “more of the same, but across a wider scale.”

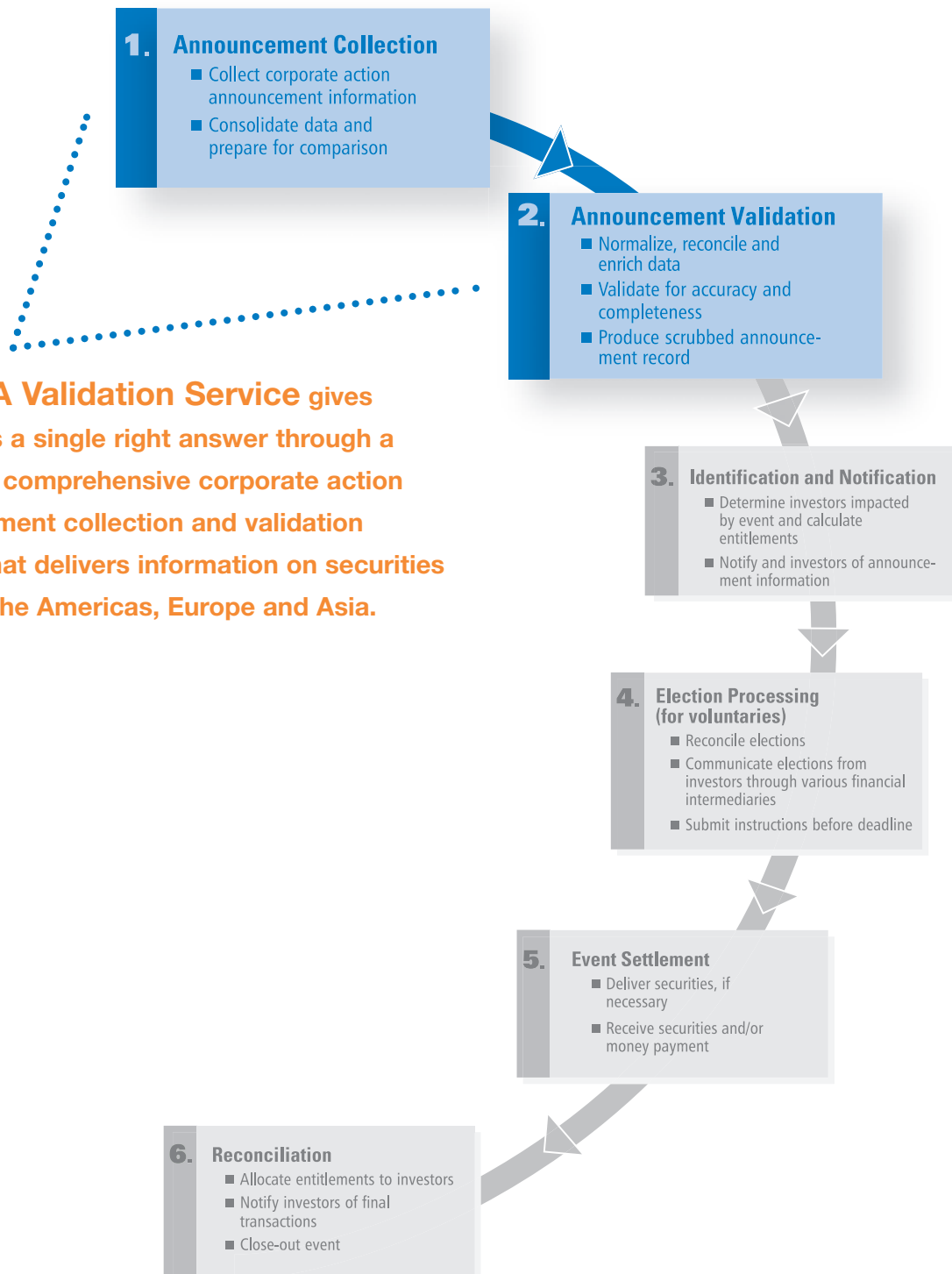


UBS Investment Bank’s James McDade, executive director, Operations, and Simon Leonard, EPIC’s project manager

Later in 2004, UBS plans to launch EPIC in Asia. “There is no question that Asian securities are the most complex in terms of corporate actions,” said Leonard. “There is very little standardization, and each market has its own idiosyncrasies.”

“In the future, we’d also like to get information on private placements,” said McDade, “which will be a challenge for DTCC because the information comes from so many different sources. Corporate actions are always evolving in terms of their complexity. So while we’re excited about the progress we’ve made so far, we realize we’re far from finished.” @

# Corporate Action Life Cycle



The GCA Validation Service gives customers a single right answer through a seamless, comprehensive corporate action announcement collection and validation solution that delivers information on securities traded in the Americas, Europe and Asia.

To find out more about our Global Corporate Action Services, contact:

**GCA Relationship Management**

Global Asset Solutions LLC

Phone: +1 866 382 2422

+44(0)20 7444 0417

Email: [gcainfo@dtcc.com](mailto:gcainfo@dtcc.com)

[www.dtcc.com/gca](http://www.dtcc.com/gca)

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