

EMC PERSPECTIVE



Reader ROI

- Corporate action volumes will continue to grow and create challenges for operations departments.
- Risk points and inefficiencies can be eliminated by automating processes.

Automating Corporate Actions to Reduce Operational Risk

Lowering risk through process automation

The corporate actions (CA) arena encompasses the dissemination, reconciliation, and processing of vital securities information via data feeds among multiple sources using varied data types and formats. Mistakes in the CA arena can result in huge financial losses.

Although some firms process corporate actions using state-of-the-art, lifecycle-driven solutions, most use repository-centric automation solutions or fully manual processes. Manual processing impedes productivity in a firm's back-office operations, preventing the use of straight-through-processing (STP). In addition, manual processing leads to errors which increase costs, especially in the support and servicing areas.

The challenge

In order to mitigate risk and monetary loss as the volume of corporate actions continues to grow, it is becoming increasingly important for firms to identify gaps in corporate actions lifecycle processes—particularly non-standard and manually intensive processes—and to implement error-proof solutions.

Data: standards and handling

There are currently over 100 corporate actions event types. The data regarding these events must be handled in an efficient and error-free manner to avoid severe financial losses. Firms that lack some form of uniform data standards protocols use manual processes to extract and make “uniform” the data for subsequent lifecycle processing. This adds time and risk to the firms' operations.

SWIFT readiness

ISO 15022 messaging is rapidly becoming a preferred standard for sending and receiving corporate actions data. Firms that use fax and other paper-based methods to transmit data will be challenged to convert to SWIFT and use the ISO 15022 financial messaging standard for data transmittal. SWIFT readiness may enable a firm to achieve competitive differentiation in the marketplace.

Rules and exceptions

Firms face a challenge in wading through the many types of corporate actions events and associated messages, each requiring a combination of both standard and unique business logic to trap and process any exceptions. Applying the wrong rules to these messages or handling exceptions inappropriately can lead to data inaccuracy and a number of operational issues.

Missed events

Missed events can occur when there is a heavy dependency on a few notification sources (one or two custodians) or when events are not communicated to the firm in a timely manner. Poor handling of a well-conveyed event within a firm can also cause the event (announcement) to be missed.

Undetected corporate actions event errors due to incomplete, inaccurate, or stale data can have a major negative effect on cash management, arbitrage trading, and rebalancing of portfolios:

- Data errors can cause tax information reported to clients and regulators to be late or inaccurate, and result in heavy fines and/or penalties.
- Due to errors in event processing, a firm's investment group may fail to properly notify the custodian of the client's intentions. In that case, the investment group would be liable for any resulting losses.
- Firms might improve the quality of electronic corporate actions data, but might overlook important information contained in a freeform text field.

Reducing operational risk

Lack of end-to-end automation and productivity tools in the processing of a corporate actions event significantly increases the risk of single-point failures—more so when those flow-points are disjointed.

Lifecycle corporate actions automation reduces operational risks and can enable you to:

- Integrate CA information from multiple sources
- Use electronic systems/SWIFT to transmit information
- Use uniform key data attributes for announcements and for creating “golden copies” of events
- Standardize election options across all actions
- Take advantage of industry-standard market practices, action type codes, and formats

A detailed assessment of risk will help firms choose the course of action best suited to their individual risk profile and resources. The assessment should include processes, staffing, events tracking, and existing technology solutions.

A number of vendors offer CA solutions which provide:

- Electronic event capture and notification from custodians
- Response communication for voluntary events
- Substantial reduction in manual processes
- Reduced operational risk and cost
- Accelerated response/notification timing and dissemination
- Confirmation and status reporting
- Improved quality and timeliness of investment manager analysis and decision-making
- Increased staff productivity

These packages should be evaluated to determine best fit with business goals, requirements, and IT capabilities.

Next, the firm should develop a roadmap for achieving the desired future state. The roadmap would outline a phased implementation strategy for augmenting/automating processes to achieve the greatest benefit from a cost, effort, and/or risk perspective.

A comprehensive process-centric approach will help streamline existing lifecycle processes, systems, and infrastructure. An automated corporate actions solution can enable you to substantially reduce risk and to gain outstanding operational efficiencies.



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