DATA SERVICES

Market Guide 2021

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Data is the lifeblood of the financial services industry.This is the foundation on which asset owners build their asset allocation decisions and buy-side firms structure their investment strategies, value their assets and identify drivers of performance and risk.

For banks and brokers, data powers the decisions against which money is lent, trading strategies are structured and market participants fulfil bank capital and liquidity ratios, thereby meeting their compliance obligations and helping financial supervisors minimise threats to systemic stability. Beyond this, data provides the medium through which firms identify clients and counterparties, ensure that counterparty information matches — for instrument, size, currency and trade date for example — when executing and settling trades, and that risk is managed effectively across the transaction lifecycle.

In financial services, little — perhaps nothing — works effectively without access to quality data. Data is the key to progress, an enabler for product innovation and for advances in technology.

This year's Data Services Handbook provides insight into how the market is working together to define standards for regulatory data and how this community, including a vibrant network of RegTech vendors, can help your firm to navigate the most urgent compliance challenges.

Our contributors offer advice on data automation, recognising that well-managed data is key to eliminating manual touchpoints across the life of a trade.

We reflect on the challenges and risks presented by corporate actions and how, in turbulent market conditions, the global pandemic has provided a catalyst for improvements in corporate actions data processing.

More broadly, we review the needs of the network management community, at global custodians and global broker-dealers, highlighting how data efficiency is vital to their task of ensuring asset safety, operational efficiency and effective oversight of their agent bank networks.

Overarching this set of issues, we reflect on an enduring challenge for the financial services industry — how to standardise and enhance the quality of reference data.

As Group Editor, I would like to say thank you to all our partners, whose sponsorship and assistance has been essential in putting this handbook together.

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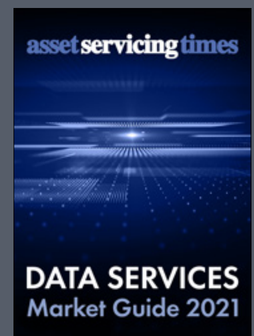

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More than compliance:

Setting the scene for the next phase of RegTech

Navigating uncertain regulatory waters is no easy task, but Confluence's Tom Pfister and Gary Casagrande explain how identifying the right RegTech partner can make all the difference

It is no secret that the 2008 financial crisis served as a major turning point for asset managers, especially for their compliance and regulatory oversight teams.

Beginning with the passage of the Dodd-Frank Act in 2010, these firms have faced a tidal wave of new regulations designed to foster transparency and accountability in the capital markets.

This flurry of activity propelled the growth of a relatively new domain: regulatory technology, or RegTech. While there had long been solutions designed to help the global asset management industry remain compliant and navigate reporting burdens, the accelerating pace of regulatory change meant a massive increase in demand for these tools. Technology providers were aggressive in working to meet this demand, as evidenced by the nearly $3 billion that RegTech startups received in capital funding between 2012 and 2016, according to a report by CB Insights.

Today, RegTech does not spur quite as much excitement as it used to, simply because asset managers have accounted for disruption and adjusted their processes accordingly.

Nevertheless, the need to remain compliant is more relevant than ever, as regulators around the globe continue to beef up reporting requirements. While most asset managers and service providers have taken steps to achieve this goal, many are coming to the realisation that this is just the beginning of the RegTech conversation. As the space continues to mature, focus is shifting from the what to the how — that is, from simply being compliant to identifying how asset managers and service providers can leverage technology to refine existing compliance and reporting procedures, and execute them with efficiency, precision and cost-effectiveness.

To do this, the industry needs integrated solutions that streamline processes and standardise actions across the myriad reports that are now required.

Below, we will explore some exciting innovations that signify the next phase of RegTech — and how we at Confluence are working to deliver this future.

Automation is everything

Too often, RegTech platforms serve as bare-bones hubs for managing compliance and reporting while doing little to change the underlying processes. They do not reduce the number of people required to do the job or lessen risk, and the cost of compliance remains high.

Humans still play a variety of vital roles within all asset managers, but sifting through massive quantities of data to create standardised reports is one area where machines win out.

The sheer volume of reporting requirements means errors are inevitable — and in an era when regulators are monitoring the buy-side with a heightened level of scrutiny, this is not a tenable situation.

Data automation is the solution. By leveraging RegTech solutions that extract client data from various sources, transform it into required formats and deliver reports to regulators, asset managers can streamline manual reporting processes, easing the burden on their compliance teams and enabling better performance and scalability. This kind of straight-through processing enables a higher level of nimbleness and scalability as this era of regulatory uncertainty continues.

The benefits are numerous. Automating key processes means that when facing multiple deadlines at once — a common occurrence given that regulations typically call for monthly, quarterly or yearly disclosures — there is no need for compliance and regulatory teams to double their 'man hours' to complete the reports. Instead, it is about what the system can handle, and with the benefits of the cloud, processing power can be dialed up as needed to ensure all requirements are being met.

Gary Casagrande
Vice president of global market strategy
Confluence

Speaking of those teams, automation can have transformative effects for the humans who support reporting processes, revolutionising their workflows and clearing their to-do lists. Instead of expending effort on mundane processes like matching and reconciliations, staff are free to add value in other ways, such as carrying out investigative work and ensuring clients are well-supported. Teams also retain full control over the process, so reports can still be filed manually depending on their specific needs and areas of expertise.

The power of one

In addition to automation, consistency of experience is another key development that points the way to the future of RegTech. By integrating compliance and reporting solutions within a wider ecosystem of functionalities, asset managers and service providers can maximise efficiency while minimising risk. The sheer number of regulations governing the asset management space necessitates a huge quantity of reports that run the gamut in terms of content, format and timing. The disparate nature of these requirements invites complexity.

By leveraging a platform solution, users can access all RegTech functions in a single location via the same app.

This makes it far easier to manage compliance and regulatory teams, as well as to take an overall view of their operations, even within the largest and most versatile organisations.

- Performance Solutions
- Risk Solutions
- Compliance Solutions
- Reporting Solutions

Tom Pfister
Vice president of global product strategy
Confluence

It is not just the RegTech functions that should be centralised in a single location — using them alongside other mission-critical tools makes them even more powerful. For Confluence clients, this means an integrated performance and risk engine that goes far beyond mere regulatory disclosures.

At Confluence, our solution encompasses all risk components, enabling asset managers to supplement disclosures with data and perform compliance monitoring based on derivative threshold testing, bar testing and the like.

The benefits of this consistency of experience go beyond functionality alone — it also reduces risk. Many of the RegTech solutions currently on the market are limited in scope, forcing asset managers and service providers to work with multiple vendors for their compliance procedures.

That means more time spent searching for providers who can pass risk audits, more platforms granted access to highly sensitive data and an inability to truly standardise reporting procedures across the enterprise.

Every firm takes its own approach to third-party technology, but one common thread is that when it comes to enlisting vendors, less is more. Integrated solutions with a breadth of capabilities offer simplicity without sacrificing functionality.

Looking ahead

Around the world, the regulators themselves are monitoring the asset management space with an unprecedented level of vigour, making effective reporting even more important.

In all regions, regulators are checking the work more closely and asking asset managers to amend their reports with additional clarifying information. And why wouldn't they?

Beyond safeguarding investors, this data is valuable for imparting insights and informing rulemaking.

This is another way that the new wave of requirements, while burdensome at times, is making the industry stronger — but this higher level of scrutiny also means reporting errors are more likely to negatively impact an organisation than ever before.

What's more, there are still a significant number of forthcoming rules on the horizon that asset managers must adjust for, potentially including the second Alternative Investment Fund Managers Directive (AIFMD II) in Europe and Rule 18f-4 in the US.

Navigating through disruption

At Confluence, helping asset managers navigate disruption is a primary focus, and our RegTech solutions are at the heart of this effort.

For three decades, we have played a leading role in helping the industry solve complex investment data challenges, seeing our clients through numerous shifts in the regulatory landscape, and we remain poised to deploy our technology to help them through future disruption.

Our cloud platform is built for speed, scale and efficiency, helping clients achieve dramatic regulatory filing throughput gains via flexible data integration, mapping logic, automation and customisable data validations.

With our robust infrastructure and strong track record, clients can have confidence in our ability to minimise human error and rapidly respond to regulatory change.

Navigating uncertain regulatory waters is no easy task, but identifying the right RegTech partner can make all the difference. By prioritising automation and integration, asset managers and service providers can position themselves for the future of compliance — no matter what that looks like.

Collaboration is key

Capco's Chris Probert discusses RegTech, how to enhance transparency, and how the market is collaborating to define standards for regulatory data

Justin Lawson reports

Chris Probert
Partner and UK data practice lead
Capco

What is your job role like, and where does Capco fit into the industry?

As a partner and UK data practice lead at Capco, a global technology and management consultancy, I work with leading financial institutions to position data at the heart of their business culture. I help them implement data strategies that ensure compliance with today's broad array of data-led regulations. Spanning analytics and insights, strategy and advisory, architecture and intelligent automation, Capco's data practice helps financial institutions transition to data-driven business models that optimise and monetise data, enhance customer experiences, drive growth, and ensure robust data governance.

Firms often undertake reporting across multiple regimes and jurisdictions. How should this process be streamlined?

Firms have historically approached reporting in a siloed manner, with operating models tailored to individual reporting jurisdictions and often underpinned by a legacy architecture. As the reporting landscape has become increasingly complex, firms should migrate to a more holistic operating model for the purposes of ongoing compliance. Ideally this will consist of a centralised horizon scanning and an impact assessment function, with subsequent federated implementation of new regulations or changes to regulations.

In addition, given that reporting offers only minimal competitive differentiation and multiple synergies exist across different regulatory jurisdictions, firms should look to leverage RegTech across the reporting stack — from horizon scanning, reporting eligibility, report generation, submission through to QA — to significantly improve their ability to evidence and demonstrate their compliance. As well as increasing automation, this will reduce costs and enable the focus for reporting to shift from purely an administrative burden to a value added process within the firm. Meanwhile, it will decrease the risks associated with incomplete and inaccurate reporting.

Are firms equipped with the right tools needed to manage high volumes, data quality issues and complex reporting relationships, which are required to evidence their control framework?

A large majority of firms have typically built regulatory reporting solutions in-house, leveraging legacy data architecture, technology platforms and workflow tooling. As the complexity of regulatory requirements, scope of reporting, volume of fields and number of required reports increases, these solutions are often not scalable. Defining and implementing an effective end-to-end control framework on existing reporting infrastructure, therefore, remains a key challenge for most firms. The challenge is often exacerbated by a poorly defined data strategy, lack of an enterprise-wide golden source of data, and an absence of clear ownership for sourcing and aggregation, which ultimately results in poor overall quality of data. This can severely limit the effectiveness of existing controls, as ongoing data issues may often mask true reporting exceptions, resulting in further delays in issue investigation and resolution. Ultimately, firms will need to adopt a strategic approach to regulatory reporting and move away from retrospective, sample-based controls towards a real-time front-to-back control framework, which will not only prevent reporting breaches from occurring but also enhance transparency on any open exceptions, accelerate issue resolution, and mitigate overall regulatory reporting risk.

Firms can benefit from an enterprise data repository. However, the nirvana of a golden record source for use across the enterprise has its challenges. How are firms tackling this challenge?

There has been a shift in how firms approach this problem over the years. The realisation that building one single golden record is not easy, especially in the financial services sector where standards are poor and reference models are either high in coverage or detail, but never both. This has led to changes in the way firms are approaching the problem.

Older data architecture patterns are slowly being replaced by more 'modern' methods which are centred around a semantic layer. This is a key architecture feature of a data mesh, but has high relevance in financial services for a range of on-premises and cloud deployments. The key difference here is instead of building a rigid hard single version of 'truth' (which may not be everyone's version of truth) they create a model on which views can be spun up as needed from a standard catalogue of terms.

Are there any lessons to be learned from regulatory data integrity and control processes that can be applied to other complex data processes?

There are two key lessons that firms can take from the regulatory data integrity and control process. Firstly, clear standards are important — with clear definitions and standards of data quality comes not only enhanced transparency on issues but also a position from which clear aggregations can be derived.

The second relates to market collaboration. The market has started to work together on defining standards for regulatory data, as many of the types of data (even non regulatory based) are not unique to them, so collaboration is an important step in jointly solving the challenges relating to those standards.

A new paradigm

SuccessData's Laurent Louvrier explains that in the new paradigm of asset servicing, everything should be built around data

Maddie Saghir reports

What is data automation and how does it work?

Data automation is the technology that allows the processing of documents all the way from the reception of a file to triage/classification and extraction of meaningful information from various sources in an automated way.

It is essentially what aims to replace manual data processing. This can take several forms, and it can be a relatively straightforward extraction from sources of data that are already what we call "structured".

Think about an Excel spreadsheet with well-defined fields; assuming the format does not change, you can relatively easily extract the relevant fields and it has been around for decades.

It gets way more complicated when you need to process information that is defined as unstructured, meaning that the format can vary entirely from document to document or the file itself can be a scan, for example.

There is no template in the information that you need to retrieve, and you basically need to get a machine to understand that document the way a human being would, taking clues from how the document itself is presented.

What is needed in that case is to combine various techniques from straightforward traditional software, all the way to more advanced artificial intelligence such as machine learning and computer vision.

In today's asset servicing industry, why is data automation important and what benefits can it bring?

Automation is critical for the asset servicing industry in general and for the servicing of private assets, where information exchange is less structured and normalised than for traditional asset classes for example. If you look at the exchange of information between general partners (GPs) and limited partners (LPs) around fund capital flows, fees breakdown or portfolio composition, you realise that this information is sent in the form of mostly unstructured data. There are, of course, industry standards and taxonomies that are more and more widely adopted such as ILPA or Invest Europe. But still, it does not cover the entire scope of a typical large LP's investments, and in any case the trend is for LPs to require more granular and detailed information, whether for internal or for environmental, social and governance (ESG) reporting purposes.

What this means is that whoever can automate the processing of information can be at a competitive advantage, because it streamlines their operations and it can help scale the business. If you look after 1000 funds and grow nicely by 40 per cent to 1400 funds, but at the same time the addition of those 400 funds requires you to add manual resources in proportion, then that is highly inefficient.

I also think that beyond the operational efficiency angle, decision makers should think about all their stakeholders, and in particular their employees. Manual data processing is very

repetitive and unpleasant. However, if this process is automated and the questions become: "what added value can we create now that we have all the data coming in quicker with higher quality? How can we serve our clients better? What products can we create to differentiate ourselves and how can we use our internal resources to achieve this?", then this becomes beneficial for everyone. This is what we see today with the players who are the most advanced on that automation route.

Can security be compromised with automated data? How can these risks be mitigated?

The question about security and confidentiality is a very interesting one.

There are essentially two ways in which you can automate the processing of information: you can process documents physically on your premises, meaning that the data underneath does not leave your servers once it is received. The data automation is therefore as secure as the rest of your workflow.

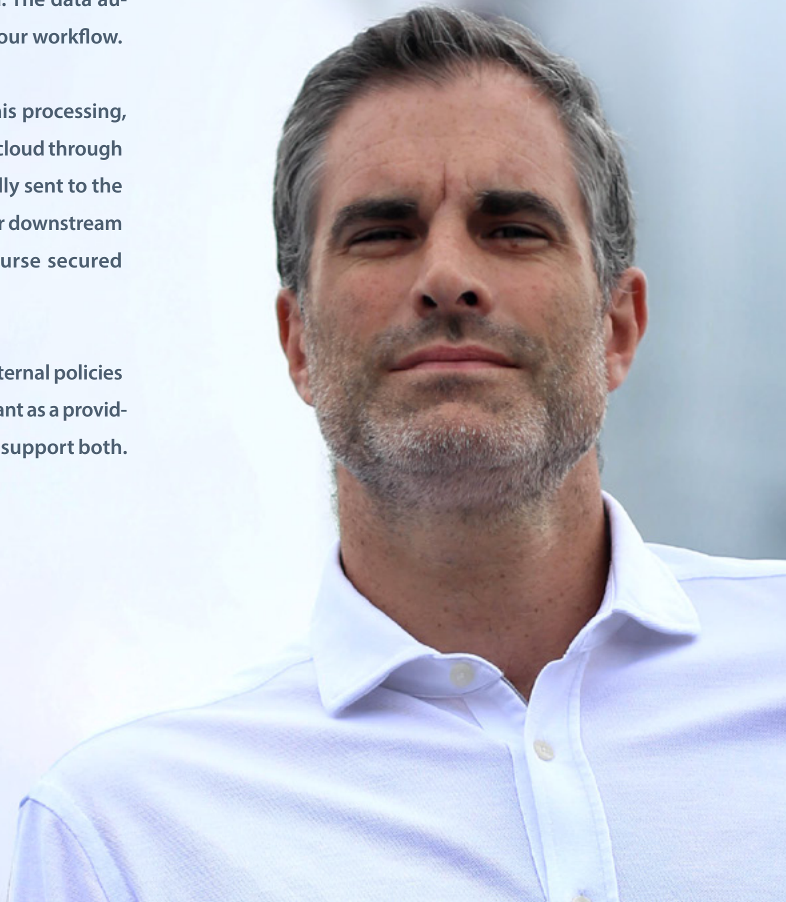
The other option is to somehow externalise this processing, and usually have this processing happen in the cloud through a third-party provider. Documents are physically sent to the processing platform and results are retrieved for downstream usage. The exchange of information is of course secured and guaranteed.

Which approach to choose really depends on internal policies and overall IT security strategy — what is important as a provider of data automation solutions is to be able to support both.

What other challenges are asset servicers facing regarding data automation?

I think the main challenge is what I call the test of reality. Data is messy, there is literally no limit to how information can be presented and what documents can look like. So how can you put in place a process that can handle the complexity of the various input formats, with an endless variety of layouts, and how do you handle the complexity of the actual data that you need to retrieve?

The first point typically applies when you want to retrieve data when the layout of the document itself matters, for example when you deal with cash flow statements or financial statements. What you want to do is collect data that is presented in tables without having to hard code specific templates for every type of document or provider.



Laurent Louvrier
Founder and CEO
SuccessData

The second difficulty relates to the need to extract complex or hierarchical relationships, or when you do not know in advance how many items you need to retrieve (in the case of the composition of a portfolio for example, you get a quarterly report with the schedule of investments, from which you need to automatically infer a collection with all portfolio companies). This is where automation becomes very complicated — basically the more you have to mimic human data extraction, the more difficult it becomes.

How can asset servicers leverage technology to adapt to these challenges?

Data science can solve a broad range of problems and allow asset servicers to gain a competitive advantage. The key is to be smart about which technology you want to keep in-house and which you want to take off the shelf. Put each of the key priorities that involves data science on your roadmap in one of the following three categories:

1. Keep in-house because it is core and part of my value proposition
2. Outsource and find a partner to do it
3. Opportunistic — try in-house but also keep my eyes open for the right external help

Data automation is a good example. The difficulty around developing this type of solution is that you need to master a very complex set of techniques which translates into a complex technology stack. The most advanced solutions combine relatively traditional text analysis based on natural language processing (which can themselves be far from trivial to master if you use the latest advances around transformers for example) with computer vision techniques that allow you to handle document layout information.

In order to extract information in a relevant way, you need to be able to automatically recognise and read the document contextually. This means that when there is a specific section with a specific table, you need to understand whether you want to process it or not, and in due course process it smartly so you are able to understand which form it takes, whether it has subtotals, whether it is aggregated in a particular way, etc. Matters can become very, very complicated. It can also be slightly misleading because with a relatively basic approach, you can achieve some initial results, but when you start to scale across a broad range of documents, templates or formats, you very soon realise that the problem is actually incredibly complex to solve and you may be better off creating value downstream from the automation process, rather than re-implementing it yourself.

Looking to the future, how do you see data in the asset servicing industry evolving?

I think that fundamentally the asset servicing industry is, at the end of the day, a data business just like most other financial services businesses. However, the way any system currently works, or the process by which any analytics are generated, usually tends to start with the code or the model, and retrieving the required data is almost an afterthought at the design stage. Once you have defined what you need, you start building connectors to obtain clean data from a database or a data lake somewhere, and then you integrate this back into the application, so it can be processed. It is the same for results or reporting that need to be exposed to clients. I think there is going to be a fundamental shift and a recognition that the current approach is inefficient and contributes to maintaining a fragmented architecture. It will become apparent that data does not need to physically move across applications, and that it can be made available to clients in a smart way. This ultimately allows analytics or reporting solutions to be built on top of this data, just by accessing and querying data sets that have been prepared, normalised, and catalogued properly.

In the new paradigm, everything should be architected and built around data.

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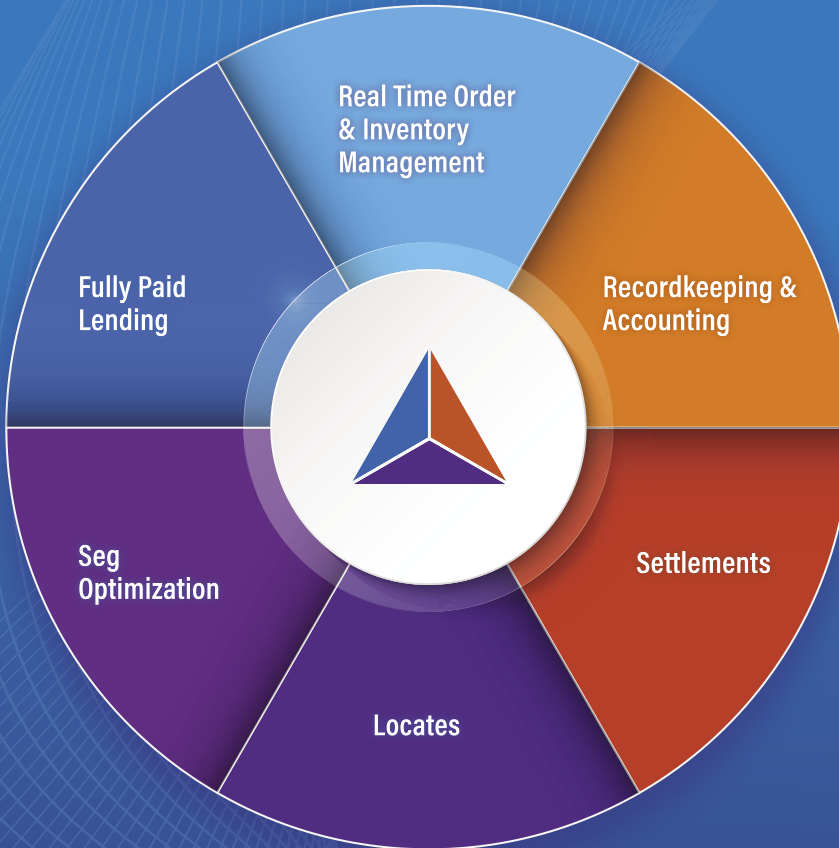

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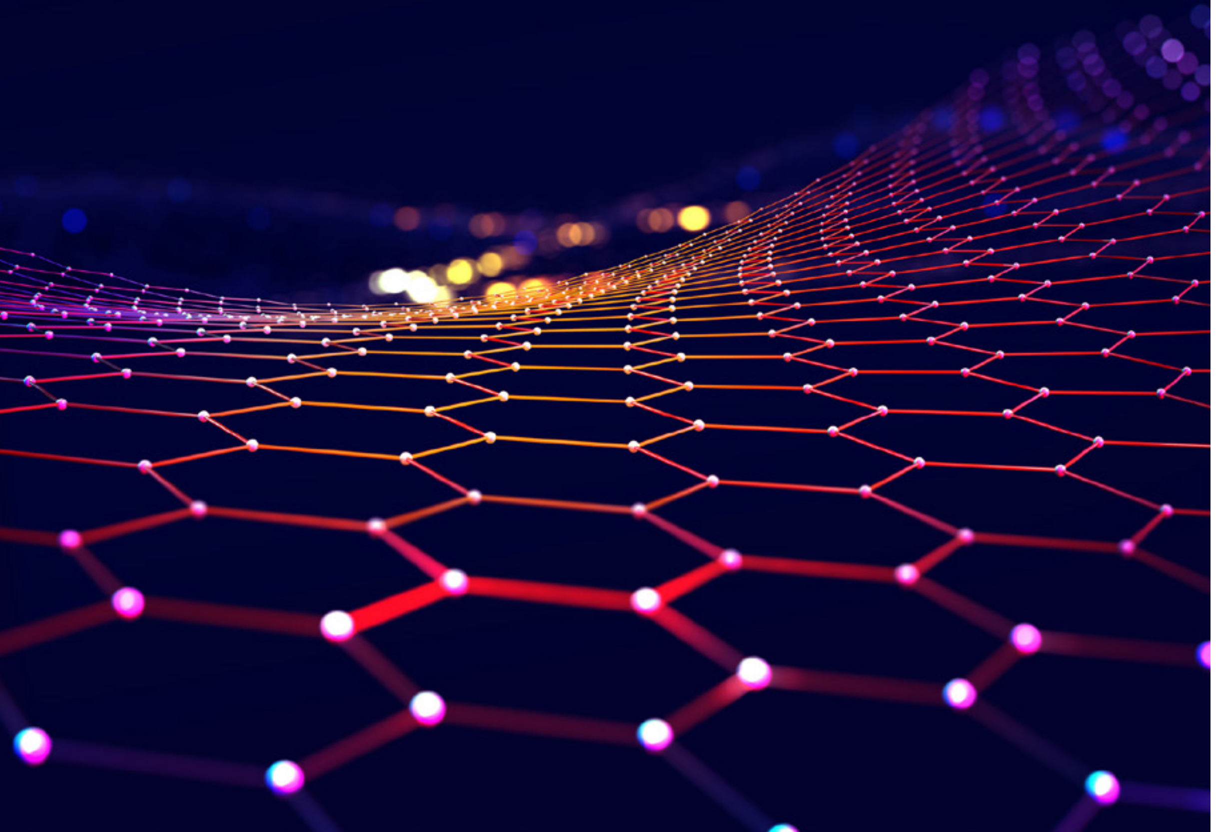
Cleaning up the act of corporate actions data processing

FIS' George Harris goes through the data-related challenges and solutions associated with corporate actions that were discussed during FIS' summer 2021 webinar



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For asset servicing operations, corporate actions processing can be a messy business, supported by a myriad of different systems, standards, spreadsheets and manual processes. In a summer 2021 webinar hosted by FIS, investment industry experts discussed the data-related challenges and proposed some helpful solutions.

> *"If you get the initial information wrong, then more or less everything else that follows in the lifecycle will be wrong, or you are going to miss something"*

Dishing the dirt on corporate actions data

Growing volumes of increasingly complex corporate actions. Hundreds of custodians communicating in a range of formats. All managed with spreadsheets, emails and even fax machines. What could possibly go wrong?

If you hadn't guessed, the answer is: a lot. When asset servicing operations are stretched beyond their limits, it is easy to make mistakes. With investment income at stake, errors in corporate actions management can cost dearly, losing firms money and damaging their reputation.

At the heart of the problem is data, the sheer volume of which can overwhelm a manual processing environment.

"Just managing the information is very difficult," says Christine Tran, assistant vice president, team lead of security data management, Harris Associates, a Chicago-based asset management firm.

Tran comments: "On the buy-side, we have many different private and institutional clients, both international and domestic, carrying a variety of securities, and [we] work with around 150 custodians. So, constantly, different bits of a corporate action are being announced and need capturing. In the past, we managed all of this in Excel, which created a slew of issues."

With too much information for manual processes to handle, corporate actions data is often missing, inconsistent or late — kicking off a chain of incidents that could ultimately lead to operational losses. The key is to ensure accuracy and reduce risk from the start, with the correct interpretation of an event announcement.

"When you look at the corporate actions lifecycle, the most important part is obviously the beginning," explains Stuart Mathews, vice president and global head of asset servicing, Goldman Sachs Asset Management.

"If you get the initial information wrong, then more or less everything else that follows in the lifecycle will be wrong, or you are going to miss something."

"But when a single corporate action is announced to the market, it is amazing to see the differences in the data that comes in from each of our custodians."

Clearing a way forward with consistent automation

The good news is that automated tools are already transforming the landscape of corporate actions data management and are starting to drive the accurate, timely straight-through processing of event announcements and elections. The ISO 15022 messaging standard has played an important role in both automating and standardising the communication of corporate

"The fact remains that universal use of a single messaging standard for corporate actions is some way off"

actions data. Now, with an even more sophisticated standard on its way in the form of ISO 20022, asset servicers are set to reap further benefits from automation.

"The most compelling reason to adopt ISO 20022 is to reduce risk," suggests Patrick Eldridge, associate director and co-lead of investments practice Alpha FMC.

Eldridge continues: "It is more enriched and consistent, and it drives scalability from a technology standpoint. If everyone is adopting the same standard, they can consolidate corporate actions processing workflows and technology upstream and downstream."

But many custodians in particular are still reluctant to move to ISO messaging and play their part in fully automating the corporate actions lifecycle. That proved a problem in the COVID-19 pandemic, as the industry was forced to switch swiftly to working from home.

As Matthews points out: "Over the course of the pandemic, and especially at the start, we saw a lot more errors with custodians that were not ISO 15022 compatible than those that were. It speaks volumes about how critical the messaging standards really are, because they go straight through. If you are manually sending a fax or an email instruction, you are more likely to miss an election or input the wrong data."

"It is all about visibility as well as the reduction of risk. We have seen tremendous benefits from moving to an automated platform that supports ISO messaging and can handle the full lifecycle of a corporate action."

Clearly, though, automation requires investment. According to Ken Rahl, principal and founder, Castle Peak Associates, some of the smaller shops struggle to build a business case for investing in technology.

Rahl notes: "They will say they are not big enough or do not have the volume or complexity necessary to justify the automation."

But Matthews counters: "It may not seem cost-effective for firms to invest in automation. But if you stick with manual processes, it significantly increases risk. It only takes one corporate action and one error to create a million dollar loss, which could have funded the ability to use ISO messaging and save you more besides. The cost of automation may be high, but the chance to reduce serious data errors makes it worthwhile."

Bringing a new shine to data with BPaaS

The fact remains that universal use of a single messaging standard for corporate actions is some way off. So, although digital technology vendors and industry bodies are making great strides to automate the corporate actions process, the constant influx of data is still challenging for asset servicers to handle.

For example, it can take operations teams a long time to check the details of announcements and cleanse or 'scrub' the data — up to 60 per cent of their working day, according to some FIS clients.

Plus, ultimately, the cleansing of corporate actions data adds zero value for asset managers, broker-dealers and trust companies.

All of these institutions will be processing exactly the same information on dividends and the like, which only adds to the inefficiency.

Now, forward-thinking firms like Harris Associates and Goldman Sachs Asset Management have found a better way to manage their corporate actions data.

As well as driving automation with an end-to-end digital solution, they are completely outsourcing the data scrubbing process to their technology provider, on a Business Process as a Service (BPaaS) basis.

For every event announcement, an expert team will sift through the multiple interpretations to quickly determine the correct information — and deliver an enhanced "silver copy" feed of high-quality corporate actions data, ready for further processing.

Harris Associates' Tran says: "Having the BPaaS team create a silver copy of corporate actions data is ideal; we can then upgrade it to a golden copy with our own information. A full audit trail also helps us mitigate risk by showing how the data is reconciled between custodians and tracking any changes."

Goldman Sachs' Matthews adds: "There is nothing proprietary about the information that is announced in the market. So, we pass all of our custodian data on events straight to the BPaaS team for scrubbing and validation — and can then present a golden copy to our portfolio managers."

As financial institutions move more of their middle- and back-office systems to the cloud and entrust the hosting and management of applications to technology vendors, BPaaS is the natural next step on the road to more streamlined operations.

Once, organisations were wary of outsourcing and feared a lack of security and a loss of control if they swapped on-premise software for fully managed services. Today, there is a growing realisation that services deliver superior levels of both security and control, as well as convenience and cost effectiveness — providing all you need to meet your core obligations and taking away only the tasks you could do without.

"It all comes down to trust," concludes Matthews. "We know that the BPaaS team has exactly the right expertise to handle the data scrubbing process, with many years' experience in the industry. We have developed a great partnership with the team as we not only have confidence in their ability but also see everything they are doing, with all the transparency we need to identify any issues or exceptions ourselves. This has worked very well over the years we have been using the service."

Are you ready to clean up with BPaaS for corporate actions data?

If you find cleansing and validating corporate actions data a time-consuming, error-prone and risky process, FIS Corporate Actions Data Services (formerly XSPertise) could manage it for you on a BPaaS basis.

Find out more by contacting us at getinfo@fisglobal.com

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A new lens

Although the COVID-19 pandemic saw the corporate actions industry face many challenges, it has provided a significant catalyst to change. Industry experts discuss the lack of standardisation, increasing external demands, the optimum vision for the corporate actions space and more

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Why does the management of corporate actions play an increasingly critical role in meeting increasing external demands?

Daniel Schaefer: The processing of corporate actions is becoming more commoditised. Clients expect low-touch processing and want it to work as smoothly as possible. But complex corporate actions are still lacking a degree of standardisation and harmonisation across markets, posing greater operating and financial risks and, therefore, requiring service providers to be very close to the markets and issuers.

Regulators, especially in Europe, increasingly require intermediaries in the process chain to pass on information to shareholders (and instructions from shareholders back to the issuers), to enable investors to execute their shareholder rights. In Europe, the two Shareholder Rights Directives (SRD I and SRD II) have had a huge impact on how corporate actions are processed by intermediaries.

We are seeing further initiatives to improve corporate actions processes, for example, by the European Central Bank, which is a key driver behind the newly created Corporate Events Group and the SCoRE standards for corporate actions.

George Harris: Corporate actions management has always been a dominant feature within the operational framework. Not only does it attract strong attention from the investor and ownership community, but also carries a high risk quotient associated with the operational management of the lifecycle of the event. However, what appears to be emerging is a greater amount of scrutiny paid to the end-to-end process culminating in continuous reportable activities within the overall operational eco-structure, whereby the investor and ownership community is just one interested party. Specifically, the need to capture the key economic detail of the corporate action event, the applicable decision points and the predicted and actual outcomes are key referential points required to be published to multiple information consumers. These demands are required to be met either as a feature of any service level agreement or description between parties, or are considered as in-scope reporting points to meet any regulatory demand, including SRD II or the Securities Financing Transactions Regulation (SFTR). This has given rise to having to warehouse this data within an enterprise data management solution, thus allowing a managed control of content and distribution.

Sharde McCorkle: There are numerous reasons why the management of corporate actions is so critical, especially in today's financial climate, but my short answer is: the customer. Corporate actions are a pillar of the post trade lifecycle support ecosystem and it is our service that produces and supports economic stability and business continuity within the broader operations support model. The role of corporate actions continues to become increasingly critical as the demands of the marketplace evolve and the expectations of client service collide. Over the years we have seen corporate actions progressively morph into a complex business that must keep up with the challenges of the clientele it serves. As such, the considerations that are on the radar of all lines of business lie within systemic risk, enhanced security instruments, time management combined with multi-market processing, trade activity, and the overall impact of the current events we face.

When it comes to processing and meeting the external demands of event management, it is crucial that financial bodies consider the big picture in order to attain the best results. How many times have we witnessed the consequences of failing to

optimise performance and the downstream implications that include everything from regulatory penalties to financial loss (not just for the firm but also the customer), and of course reputational damage in the eye of the public and in the confidence of the client? The external demands for timeliness, speed, accuracy, transparency and value are becoming increasingly more present, while the days of leaving elections on the table, overlooking event complexities and operating with a business as usual (BAU) state of mind are no more. So, when we think about the criticality of managing corporate actions in today's landscape, I think the consistent question we should ask is how the mismanagement of corporate actions will simultaneously influence external demands and what are the internal consequences of

"Corporate actions are a pillar of the post trade lifecycle support ecosystem"

Michael McPolin, managing director, market advocacy, Broadridge Financial Solutions

The rationale behind effective management of corporate actions comes down to a variety of external factors centring around economic, environmental and regulatory demands.

The industry has seen increasing corporate action volumes and event complexity in response to the demands of capital markets in a time when regulators have a diminishing tolerance for errors within financial institutions. This coincides with the industry experiencing a sustained period of price compression and reducing profit margins.

New regulation such as SRD II has introduced performance standards that require intermediaries to facilitate the distribution of corporate action announcements on the same business day, while the world is experiencing a global pandemic that has required all industry participants to apply business contingency solutions with staff working remotely from home and the industry seeking to adapt operating models to comply with global lockdown challenges.

Operations teams are under pressure to maintain operational integrity due to the risk and potential for financial losses associated with corporate actions while driving an efficiency agenda to include new technology, digital solutions and managed services. Demand for increased returns on investments has also seen the front-office seeking increased speed and accuracy of corporate actions data so they can optimise investment performance.

overlooking them. Ongoing dialogue to ask the right questions positions us to strategise, and when we consider our strategy, we are met with the opportunity to develop the right answers to put our best efforts forth first for the customer and ultimately for the business.

Matthew Ruoss: We look at corporate actions a little differently than our fellow panellists in that we analyse how our customers can achieve the best possible value from any given corporate action.

Given that investors are pressing asset managers and others to secure every basis point they can and are more closely scrutinising the decision-making process as a result, firms must be very diligent in how they manage the process, beyond just operational efficiency.

The problem of value lost through sub-optimal decision-making around corporate actions — namely voluntary acts like rights issues and scrip dividends — is substantial.

Our data shows that each year, over $1 billion is missed out on just scrip dividends. Ensuring that funds capture this intrinsic value that is otherwise being left on the table is critical. This pressure gets tighter when you consider the huge influx of assets into environmental, social and governance (ESG)-compliant funds. More than just environmentally-focused considerations, firms are having to demonstrate good governance — not just with their investment selection, but in how they manage these investments. Good governance demands good stewardship of the assets, and we are seeing more pension funds casting a closer look at how their managers handle corporate actions.

Katie O'Connor: The increasing demand for self-servicing, real time information access and modern digital tools provide both challenges and opportunities in the corporate actions space.

Given the complex nature of corporate actions, the need to ensure timeliness and accuracy in every step thereafter — dissemination of the corporate action information to investors, collection of elections and passing instructions to the street, and paying out correctly — further adds to these risks and operational costs, creating several potential points of failure.

In addition to the above challenges, there has also been the introduction of several new regulations as regulators look to protect investors and maintain confidence in market integrity. We are seeing newer regulations such as SRD II increasing transparency around corporate governance and setting performance parameters by which intermediaries must pass on corporate event notifications to clients.

Market infrastructures around the world are also evolving. DTCC in the US is completing the re-engineering of corporate actions processing to move to the latest ISO 20022 standard. Various European market infrastructures, driven by TARGET2-Securities (T2S) harmonisation efforts, are following suit and the ones in Asia Pacific (APAC) are not far behind.

All of these changes require continuous product and technology change investments with the growing demand from clients to provide accurate data and information on a real-time basis through modern open platforms and application programming interfaces (APIs). The API adoption is increasing at a rapid pace and their adoption can improve the efficiency not only around client communication but also interactions with the street including counterparties, market infrastructures and solution providers. This is coupled with an increased demand for portals which give asset owners increased transparency and control over their corporate actions.

What challenges does the lack of standardisation cause within corporate actions? And how should this be addressed?

McCorkle: Standardisation in the industry has grown to be quite subjective. Often, we look at it from the perspective of uniformity or maybe the use of best practices across various parts of the corporate action lifecycle, but recent times have demonstrated that standardisation must be coupled with an assessment of the outcome. Are we achieving the desired results? The desired results are ultimately what sets market players apart and the key here comes down to how are we putting standardisation into practice. In corporate actions, the lack of standardisation from an information perspective alone can have severe impacts from missed opportunities to legal ramifications.

"In corporate actions, the lack of standardisation from an information perspective alone can have severe impacts from missed opportunities to legal ramifications"

To address the challenge, we must first re-evaluate our current methodology for developing standards and then assess how they are being applied. As an industry, we frequently evolve by looking at what we can do better or differently based on our lessons learned and risk incidents, but those times are perhaps the most critical and often too late. The need for standardisation and corporate actions are relative. As the scope of processing grows, the demand for consistency and control grows with it. In corporate actions our ability to be proactive struggles in part because there are many moving components to the overall process, but the other stumbling block has been outdated practices. In the future, reliance on enhanced collaboration across the industry will be the driving force behind standardisation. It is the building block to sharing information from credible sources that can be leveraged across firms, ongoing conversations with governing bodies that publish standards and turn them into actionable duties, and agreement and insight to what the standards should be. Once inclusivity becomes a part of the process, periodic reviews by those responsible for exercising them and secure prompt transmission of data, currency, and communication will be a leap forward in tackling the controllable challenges that overshadow the industry.

Schaefer: Over the course of the last 15 to 20 years, corporate action processes have been improved significantly. After the introduction of the ISO15022 standard 20 years ago and its constant enhancement by groups such as the Securities Market Practice Group (SMPG), there have been significant achievements.

The focus was first on high volume corporate action events such as dividends, interest payments and redemptions, where the greatest impact could be achieved. This has resulted in a very high straight-through processing (STP) rate across the industry for these types of events. However, more complex events can still be challenging and these have been addressed, too. The banking industry has constantly worked on harmonising and standardising these events. At the same time, issuers and issuer agents have found themselves obliged by the legal framework — for example, requirement for physical documents — or by tax

"Standardisation is important, but is it realistic? The markets themselves are not standardised to the effect that would enable a fully automated, end-to-end corporate actions lifecycle"

laws to process events in ways that sometimes run counter to previously agreed industry standards. Historically, banks have worked on standardising and harmonising corporate action processes. Going forward, issuers and their interest groups are likely to be much more involved in these discussions. When looking at attractive investments, standards in corporate action processes have not always been a primary focus. This is changing, however, since institutional investors are placing more emphasis in their investment decisions on additional factors that impact their returns, such as the cost of inefficient corporate processes and the risk of operational losses.

McPolin: The lack of standardisation within corporate actions usually references the messaging protocol in the investment chain. Issuers and issuer agents have traditionally not invested in messaging such as SWIFT and consequently intermediaries are required to capture event announcements issued in multiple formats and translate them into SWIFT messaging for onward distribution in the investment chain. This lack of standards in a

George Harris, **senior director, data management solutions, business operations and delivery management, FIS**

Particularly in the absence of a single record of truth published by the source, standardisation remains an important principle of corporate actions to defend against interpretive risk, but I see the root of the problem in how we provide issuers with incentive and the necessary platform to broadcast their event to industry.

ISO 15022 and ISO 20022 have their rightful place as standardisation enablers but burgeoning technologies and vehicles such as distributed ledger technologies and arguably APIs may provide legitimate alternatives offering added sophistication to the services that product owners or consumers may wish to avail themselves of.

The business outcome remains active risk management while providing a product or service offering needed by clients and regulators alike.

"Burgeoning technologies may provide legitimate alternatives offering added sophistication"

chain that may contain multiple intermediaries, combined with a lack of automation, carries significant operational risk with potentially significant financial losses being incurred because of error.

Other challenges due to lack of standardisation include the cost and effort in data validation to mitigate risk, delays in the distribution of corporate action notifications and a reduced deadline to the front-office to make an investment decision.

To address these market challenges, issuers and issuer agents can introduce industry standards such as SWIFT and APIs to distribute a digitised golden source event, while intermediaries can invest in technology and enhance existing standards adoption to provide efficiency and reduce risk and cost in the industry.

The introduction of the SRD II is a good example of how regulation has started to drive automation and the adoption of standards by mandating the use of machine-readable and standardised formats which are interoperable between operators and which allow STP for event announcements.

Matthew Ruoss: **Standardisation is important, but is it realistic? The markets themselves are not standardised to the effect that would enable a fully automated, end-to-end corporate actions lifecycle.**

Instead of chasing after a holy grail like the single 'golden record', a more realistic step towards operational harmony is a collaboration between market participants. More specifically, this is where asset managers, securities services providers and other stakeholders utilise and share more of their data in a way that enables faulty data to be much more easily recognised. A matching system built on this level of collaboration would have a similar effect on enhancing data quality than an all-encompassing, yet far-off, 'golden record' would. It is also highly feasible, as it is what our clients rely on us to already do.

O'Connor: Lack of standardisation and manual processes built around legacy technology architectures further exacerbate the risk of errors and financial losses. While progress has been achieved across the industry in tackling these challenges through the adoption of technology, the ability to fully optimise this investment is restrained due to other weaknesses in the investment chain that do not or cannot comply with industry reporting standards.

The lack of standardisation increases the risks associated with inconsistent information across markets and events, further exacerbated by the manual touchpoints and the deadline-driven nature of events. These errors can expose a financial institution to huge financial and reputational risks and losses. One of the major risks of errors occurs from the failure to collect, correctly interpret and validate corporate actions information in time, resulting in poor data quality or delay in the dissemination of information down the entire chain of intermediaries to the end investment manager.

To mitigate these risks, market participants and industry associations need to push towards harmonisation and standardisation of corporate actions across markets.

The financial institutions need to invest in technology and services to ensure the corporate action data is validated through a precise process of mapping, normalising and consolidating announcement information from a variety of best-in-breed sources for the relevant asset classes and markets and their agents, and then resolving conflicting information to arrive at a single golden corporate action record.

A cost-effective proposition is to utilise a managed corporate action data validation service, like Managed Corporate actions from IHS Markit, which delivers this validated information.

Also leveraging modern technology for workflow automation to eliminate risks of errors and delays from manual processing is equally important to mitigate these processing risks.

Why is it important for organisations to recognise the difference between expense management and expense reduction?

Sharde McCorkle: Expense management and expense reduction are often used interchangeably, but I think there is a co-dependent relationship between the two. It is important that firms recognise the difference to effectively manage them. One reveals the condition of the business and the other influences the condition of the business. The management of expenses is an indicator of stability and creates opportunities to reduce expenses that influence budgets and bottom-line performance. A firm's ability to manage its expenses ultimately produces a financial record and visibility into productivity. It is the gateway for decision making based on business conditions and controlling costs.

While expense management and expense reduction are fundamental responsibilities of any process owner, it must encompass a front-to-back comprehensive plan that incorporates both direct and indirect expenses. Cutting or underfunding investment in process improvement or automation can often lead to additional cost through manual processing associated with people, and subsequent operational errors which can far exceed the benefits of expenditure reductions. The savings can be wiped out by lost business opportunities, client dissatisfaction and reputational issues equating to lower revenue. Today's leaders need a balanced, forward-thinking approach to today's budgeting challenges that are both tactical and strategic.

Harris: This question suggests there remains a belief that expense management and expense reduction are synonymous; they are not. Managing the commitment of the issuer to the legal or beneficial owner community in terms of a corporate action event has an inherent complexity that needs to be tackled through a combination of people, platform or process.

Furthermore, identifying an organisation's risk appetite and business aspirations will allow the command of an appropriate business case to determine a short, medium or long-term organisational goal. With this understood, and managing the expense base versus any growth, need will determine the appropriate return on investment which should include an expense management clause.

O'Connor: While closely related, the difference between expense management and expense reduction is critically different. While it is important to look for simple ways to reduce expenses, it is important to look at the entire cost of business.

For example, while implementing a new solution can be more costly upfront, the risk of continuing to rely on manual process and out-of-date technology can lead to financial losses in other areas, such as sub-par trading due to inaccurate or incomplete data, or the losses occurred due to mistakes made during processing due to the risky nature of manual processes.

McPolin: Expense management adopts a model which assumes that expenses can increase as long as the profit margin is maintained. In theory, this should facilitate strategic investments, supporting the business as well as its product roadmap. Expense reduction is normally focused on achieving efficiencies

via cost reduction inclusive of automation. A revised operating model, such as through the adoption of a mutualised, shared services approach, is also a key enabler for transforming cost and income ratios.

Schaefer: Expense management and expense reduction are separate concepts, but they are linked. Expense management is the day-to-day control of specific items or categories of expenditure to ensure that those expenditures remain within budgetary targets.

Expense reduction is an organisation-wide policy arising from a specific management decision.

The decision for expense reduction will often be taken in response to an expectation of lower or uncertain revenues against which to set future costs. An expense reduction policy can be implemented through measures including automation, headcount reduction, general efficiency, improved controls, and even cessation or disposal of underperforming activities.

Expense management will form part of the plan for expense reduction, but expense management will be practised in any well-run organisation, even in the absence of a specific expense reduction programme. It is clearly important for an organisation to understand the relation between these separate concepts in order to achieve effective control of its performance.

In line with these two concepts, banks should bear in mind that investing in the automation and standardisation of corporate action processes will lead to operational risk reduction and reduced costs for manual processes in the medium term.

Matthew Ruoss, CEO, SCORPEO UK

There is not a bank or asset manager that can say they have never lost money on a corporate action. The losses seem small, but added up, they are staggering.

While no operating system is perfect, recouping many of these potential losses is far simpler than stakeholders. Yet, that requires an investment that still does not rank highly on most priority lists.

Corporate actions are often seen with the same lens that we use for compliance functions: the aim is to get things right to avoid losses. That is an incorrect mindset. Corporate actions, when done right, can lend themselves to being a profit centre, rather than a cost centre.

The missed value in voluntary event elections is large, yet the area is perfectly placed, with the right technology to recapture that and deliver it to clients.

This is all possible with the correct technology in place and allows the corporate actions department to contribute to the performance of its firm, rather than simply focus on avoiding losses.

What factors are key to consider when deciding whether to develop a solution in-house or select an external technology partner?

Ruoss: Firms of every size will have their complexities. What it ultimately comes down to is cost and internal expertise.

Outsourcing is far more common in asset management than it was a decade ago. Stakeholders are more willing to collaborate with technology partners if they know that the provider has the technology and the expertise that would be difficult to replicate. They are also more willing to partner if they can clearly understand the value it brings in terms of revenue.

With the advent of newer protocols that enable implementation — such as cloud computing and APIs — using an external technology partner delivers expertise and resource that may be otherwise out of reach for many firms.

Harris: There are several factors that should be considered when deciding a build versus buy solution, but these must be the right fit for the organisation for the immediate and long-term need. It is important not to be myopic when it comes to the platform solution that best fits the operation; why choose a platform that has limited connectivity to other platforms or one that does not comply with market standards? Increasingly, organisations are focusing more upon the ability of technology platforms to assist with the complexity, volume scale and interoperability within their eco-structure; one that partners well with the other applications through a rich, sophisticated and evolving product set.

One other major consideration is whether you can form a strong business relationship with the technology organisation throughout the overall relationship. People buy people, whereby it is important that those you deal with are equally like-minded and ideally from a similar background as those choosing the product or platform for their business. This approach will forge an enduring partnership that will be adept in tacking opportunities from the implementation of the product through to any unforeseen activity deserved of resolution within the platform.

Considering these factors will assist in the perpetual and often philosophical decision as to whether to grow organically, or externally partner with a solutions provider.

McPolin: While the development of in-house solutions has traditionally been an approach taken by the larger industry participants who feel they have the technology resources, capability and talent to execute, the cost to develop, maintain and, more importantly, keep current can be prohibitive.

The use of external specialist providers often offers compelling benefits that business owners, operations and compliance teams generally find hard to overlook.

External specialist partners offer a host of benefits as they are likely to have established best-in-class market solutions developed and enhanced over several years and built upon market leading technology. Some platforms are maintained via mutualised functionality developments, meaning that user groups drive change and shared development.

This approach can deliver lower running costs and an enhanced time to market. Using an external technology partner also provides the flexibility to scale up and down development resources in response to business demands and market changes which are essential in a fast moving environment.

Sharde McCorkle, director, banking and markets practice, Sionic

Putting yourself in a position to make a sound judgement or decision is the very first step. We often begin this process with information gathering, understanding, solution analysis and strategy development. The decision to build or to buy technology is a crucial one from an operational perspective, a time management perspective, and a cost efficiency perspective, the latter often being the component with the most focus — yet not always the most important factor. The very first consideration is the business requirements: What are the current needs? What are the antiquated processes? What are current system limitations? Where do we see the future of business? And how will we get there? Once the requirements have been established, we can begin to have dialogue around the pros and cons of existing technology and the effort to enhance its functionality. When it comes to corporate action processing, the critical considerations stem from the processing lifecycle and extend to risk reduction, centralisation, and increasing capacity.

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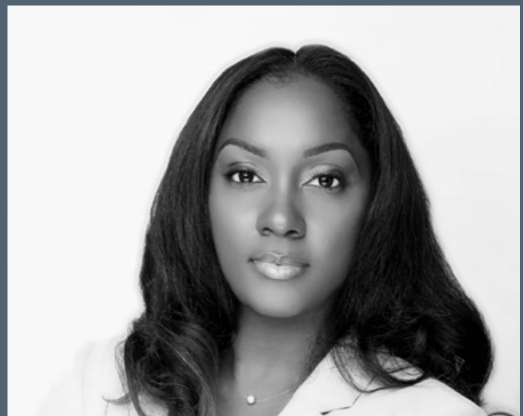
As you undergo an in-depth vetting process, you will begin to frame out the advantages and disadvantages, taking into account the spans of control of each technical approach, the upfront costs, long-term costs, the time to build and integrate with legacy technology, ongoing maintenance, compliance, capability and customisation to name a few. Such considerations become the core components that endorse your decision and allow stakeholders to feel secure with the outcome. Many times, the need for new technology is so great and so urgent that we become overwhelmed by the task at hand, but the value of the screening processing is that it removes speculation and creates room to focus efforts on the next steps. This is the start of progress and the foundation that supports the heavy delivery lift to follow.



How has the COVID-19 pandemic affected the corporate actions space?

McPolin: COVID-19 has brought many challenges to the world of the corporate action, but it also has been a significant catalyst to change; most notably it has been a key driver in the awareness and adoption of digital solutions.

This has been evident in many areas, from the remote work model and communicating with our teams and clients via digital communication applications, to influence the way we work on a daily basis by accelerating the removal of manual physical processes such as wet-signature requirements and medallion stamps, as well as the physical execution of some regulatory reporting and tax documentation procedures.

McCorkle: The pandemic has given us all new spectacles to view the world and a new way to define mobility. The shift in our personal and professional lives has given us a newfound appreciation for the value of preparation and expectancy. It also challenged us to develop our thought processes and our technical prowess.

I think we can all agree that one of the most severe effects of the pandemic has been on people interaction. Limitations for contact did not translate into a reduction in communication.

Instead, we have made a case for the value of remote working and the necessity of automation and technological advancements. We have even exposed the significance of bridging domestic and global networking gaps as our reliance on digital communication took on greater responsibility.

For years there has been a stigma in corporate actions that says the nature of the business is too risky not to have a physical presence for processing, however, in the face of adversity we found ways to effectively conduct business with minimal interruption yet an increased level of external risk. As a result of the pandemic, the reliance on people and technology has proven to be invaluable in this space and has set the tone for re-establishing our operational business models. I think COVID-19 has heightened our awareness of immediate changes versus the long-term results.

It is our responsibility and decisions that we make today that will determine how we navigate through external challenges and how rapidly we can adapt to change tomorrow.

O'Connor: The recent global market volatility, as a result of the pandemic, has continued over an elongated period with economic impacts still evolving and affecting investor confidence.

After the World Health Organization declared COVID-19 as a pandemic, several governments and regulators recommended to banks that they refrain from making distributions during this period. We have seen thousands of dividend and meeting cancellations globally in the US, Europe, the Middle East, Africa, and APAC across different industry sectors such as oil and gas, real estate, auto, construction, hotel and leisure.

There are many event extensions across the globe with meetings accounting for the most volume and extending to the later part of the year.

Apart from meetings and distributions, several subscriptions offer rights distributions, stock splits, tender offers, and bonus issues have also seen an impact. With some panic created due to a few stock exchange closures and companies not being clear about the cancellation of meeting and dividend, operations teams had to go the extra mile to track down the right data from multiple sources and closely monitor which companies are eliminating

dividend payments or other events to notify client or address increasing number updates on corporate actions and a high number of client queries. Additionally, the industry has had to operate under business continuity planning (BCP), with most offices closed and staff still working from home because of the global lockdown.

After the initial teething problems, remote working has proven to be a relative success, so much so that several major organisations are revisiting their operating models to incorporate greater adoption to either a permanent or rotational basis. We can see more focus upon new technologies and tools that can enhance the robustness and efficiency of remote working.

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Daniel Schaefer, **managing director, market advocacy, Broadridge Financial Solutions**

Fortunately, as part of many years of process optimisations, a lot had been done already that allowed the industry to manage the situation well for corporate actions. The handling of physical paper documents for corporate actions has been reduced significantly over the course of the last few years. Therefore, banks were able to react quickly, with corporate actions employees able to work from home.

Some manual processes had to be adapted quickly to address the fact that different people working on a process were not physically present in the same office, such as maker/checker.

For some remaining paper-based processes, digital signatures have been introduced where they were not already in place.

These changes are here to stay, with a hybrid model of working more flexibly, enabled by a higher degree of digitisation of the processes.

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"The pandemic has brought into sharp focus the agility of organisations to manage their operations"

But beyond that, COVID-19 and the associated remote working has also shone a spotlight on the need for financial institutions to accelerate their internal transformation programmes, such as replacing legacy platforms with market leading technology solutions or outsourcing non-core activities for specialist managed service providers.

This would enable operations to have access to accurate data, real-time workflows and risk dashboards providing them with the transparency and capability to collaborate better in order to mitigate risk and maintain service delivery in this age of remote working.

Ruoss: There have been immediate impacts, and there are longer term ones to come. On the former, we have seen clients preparing to adapt to a new working future, where teams will interact in a much different manner. Decision-making and resource allocation have been slower than pre-pandemic and we are only now beginning to see that return.

When it comes to the longer term, there is still some lingering uncertainty about the financial health of many corporations. It may be that many companies will need to carry out some form of restructuring, whether this is raising capital, merging with other companies or potentially other, much more complex and innovative structures. And, of course, these restructurings lend themselves to increased corporate action volumes.

It is highly likely then that we are going to see an uptick in event activity in the next few years, just as we did after the financial crisis of 2008. It is also likely that we are going to see these events being far more complex than normal.

Unfortunately, the higher the complexity, the more likely it is for managers to not only miss value through sub-optimal elections and errors, but to miss out on more of it.

George Harris: The pandemic has brought into sharp focus the agility of organisations to manage their operations, be that the volume peaks and troughs associated with deferred dividends or platforms being robust enough to defend from cyber attacks for home-workers. The last year has certainly challenged the toughest BCP in a way no one would have imagined.

Reliance upon the ability to deploy technology to those practitioners requiring access no matter where in the world they may reside was both a key and limiting factor that may be of interest to clients and regulators alike, particularly if there were any forms of service interruption.

Furthermore, considering that corporate actions operations are often identified as offshore or outsource candidates to lower cost regions, this may have compounded the impact that the pandemic would have had on providing uninterrupted service to clients.

What influence has the asset-owning industry had on improving efficiency and reducing risk within the corporate actions process?

Ruoss: Asset owners are helping to lead the charge on governance by looking more closely at how asset managers and securities services providers are managing processes such as corporate actions. In the past, these operational areas might have fallen down the pecking order. But now, because of the growth of low-cost funds, the push for fee reduction and other developments, asset owners are favouring fund managers that handle corporate actions and other potentially profitable operations in a responsible manner.

"It is the interest of the industry to identify best practices and mechanisms that optimises the efficiency of the corporate actions process"

The knock-on effect of this has been that good managers are taking their fiduciary responsibilities far more seriously. Gone are the days when the industry would need to feel pressured by regulators before it adopted best practices. Custodians too have a role to play in facilitating these efficiencies because of the vital role they hold in the corporate actions processing lifecycle.

McPolin: The adoption of new technology platforms and industry standards such as SWIFT and API connectivity have seen the asset owners contribute to efficiency and the reduction of risk in the investment lifecycle. As all elements of the investment industry seek to achieve efficiency, risk reduction and enhance returns on investment, the continued use of technology solutions should be seen as the path to green.

Harris: The asset owning industry has overall responsibility as a member of the intermediary chain than just alpha generating activity. Specifically, it is the interest of the industry to identify best practices and mechanisms that optimises the efficiency of the corporate actions process throughout the lifecycle of the event. One such opportunity is to tackle the challenge of disparate event notifications and the need for each recipient to normalise them before consuming them downstream to process the event. Having an issuer-generated notification published on a common platform will remove all interpretative risk and the threat of associated operational losses if incorrectly assessed. This influence may occur through an initial public offering process whereby investors, underwriters or listing authorities ensure issuers' commitment to such publication methods. This could also be through corporate engagement and governance, particularly if an issuer's track record of comprehensible announcements to the market may have historically caused intermediaries problems.

McCorkle: Efficiency and risk reduction are embedded in the fabric of the asset-owning industry and it is probably one of the biggest ongoing challenges of corporate actions. They coexist with a mutual purpose that translates to the downstream participants which can sometimes work for us but against others who play a role in the process. To say that we have achieved efficiency without concurrently reducing risk in my opinion is not efficiency at all, but it is an improvement. The biggest influence of asset owning relative to efficiency and risk is the attentiveness

to value, reporting, governance and controls. From a corporate action processing point of view, there is a long list of risks that we consistently try to mitigate such as accuracy, information flow, misinterpretation of key data elements, untimely responses, reconciliation errors, and so on. But the nature of the business is the reason why we have such a presence and influence over the improvements throughout the years.

As a by-product of efficiency, diminishing risk is always at the top of the corporate action to-do list. One of the biggest contributions is the use of streamlined data. Not only does this reduce the margin for inconsistency, but it also enables the use of information for multiple purposes.

The advancements we have made in reducing manual touches and paper handling and producing electronic records and audit trails are also a testament to both efficiency and controls.

The development of end-to-end processing engines that offer transparency to take more than just the event level risk into account but also create the ability to manage the entire transaction surely supports our efforts to become less prone to risk and more effective.

While we cannot solve for every risk or systematise the entire lifecycle, we have made headway since the times past. Leveraging the influences of our industry counterparts, we are able to create risk profiles for events and assign risk values to its elements to better recognise, measure, and regulate risk.

As a former analyst, I can say this essentially is the delicate balancing act that occurs between the complexities of the business and the sophistication of the tools and resources available to us.

Schaefer: Asset owners can directly influence issuers by asking them to adhere to generally accepted standards and can ultimately decide not to invest in their products. Issuers understand this, and that their decisions impact their investors. Accordingly, if election periods are short, or corporate actions are structured in unnecessarily complex ways, this can impact the investors' ability to make decisions and impact them financially.

In order to be attractive to investors, issuers therefore have to bear in mind that large scale investors, who might sit in another country, speak a different language and hold securities through chains of intermediaries for all kinds of reasons, must still have the possibility to exercise their rights.

Katie O'Connor, director, corporate actions securities processing, IHS Markit

The influence that the asset-owning industry has on the corporate action space can not be understated.

By driving and adopting standardisations, the corporate action space can continue to produce some innovative technology and grow with the increased regulations as well as the volume increase we have seen in the last several years. Asset owners can continue to demand more timely, accurate information which can result in better decision making and more transparency across the industry.

Looking to the next 12 months, what do you think the optimum vision is for the corporate actions space?

Schaefer: We do currently have very good discussions with all actors involved in the corporate actions process. In Europe, SRD II has brought all parties closer together and new standards such as ISO 20022 messages are being implemented.

Especially in the space of general meetings and proxy voting, where proprietary standards and even fax messages have remained on the whole standard in most markets, the introduction of ISO 20022 messages will be a major leap forward. The use of ISO 20022 is particularly being driven by the implementation of SRD II across European markets, and is likely to spread to other markets once global actors start using the new messages. In general, ISO 20022 will probably see a push for adoption, with T2S, SRD II and the upcoming migration of payment messages being catalysts for market players to look into the new message formats.

General trends such as APIs will also have an important role in the space of corporate actions, but any such use must be underpinned by generally accepted data formats, where the only generally accepted standards are the ISO 15022 and 20022 formats.

Harris: With the backdrop of the pandemic, 12 months seems an eternity. However, I think the next 12 months are likely to be focused on organisational introspectives as to how they performed during the pandemic in the management of corporate actions.

This may accelerate initiatives that had not been previously considered or did not have a strong enough business case to justify advancement. Perpetuating technology solutions to support the business is likely to be considered foremost in dealing with some of the challenges that the pandemic threw up; in some cases, organisations are engaging fintech organisations for a quicker time to market where they traditionally may not have considered such partners. 2021/2022 is likely to be the year to "circle the wagons".

Ruoss: It is exciting to consider the impact of next-generation technologies like artificial intelligence (AI), but we are still a long way off from these advances really taking hold in corporate actions processing. Instead, asset managers, custodians and other securities services providers must steel themselves for what could be a significant amount of voluntary corporate actions, which could have a sizable impact on revenues, depending on whether these parties understand what will deliver the most growth for the client.

We are squarely focused on doing just that, ensuring that our clients have the means to capture the full value hidden within these actions.

McPolin: I would say the increasing demand we are seeing from buy-side clients for real-time information access and best-in-breed digital tools looks set to continue and provides an opportunity for the industry to leverage technologies such as APIs and open platforms for its benefit.

API adoption, for example, is increasing at a rapid pace due to its ability to improve the efficiency of client communications and also provide real-time data straight to the front-office. Real-time data can benefit clients by optimising return on investments and maximising the value of interactions with counterparties, market infrastructure and solution providers, by streamlining operations, reducing risk and providing an enhanced client experience.

In the aftermath of the pandemic, I would expect to see the continued development and adoption of the digital solutions to market challenges which may be supported by further descriptive regulatory engagement such as SRD II to drive the use of technology, standards and automation, as the industry continues to drive towards efficiency throughout the investment lifecycle.

McCorkle: Within the next 12 months I think the optimum vision for corporate actions will be to accelerate the path forward and that is for two reasons: to make up for lost time and a second wind. In corporate actions, time is always of the essence and so over the next year market players will look back on lost opportunities and recuperate them where they can.

The second wind has refreshed us with a new mindset, new effort, and a glimpse of what we can do in unfavourable, unprecedented circumstances. For months we have all contemplated going back to normal, but I think now we are starting to embrace the new state of our environment and we are starting to customise our trails to continue moving in the right direction.

My colleague Jim Monahan previously addressed what the path forward will entail post-pandemic and I think he accurately confronted the top three areas firms will need to cultivate and refine over the next few months, which are people, process and technology.

The route to achieving the optimum vision requires a new lens. The new lens will still view corporate actions as one of the riskier aspects of asset servicing operations but it will now also consider corporate actions as a steward of post-trade processing. In this capacity, firms will focus more on proactive efforts to prioritise risk management, strengthen controls and of course, delivering a client experience that is second to none.

The new vision is one of the accelerated settlement cycles and improved infrastructure transformation, coupled with enhanced cognitive functionality for continuous automation and streamlined STP experiences. With that comes rethinking about resources. Placing people in the right environments, re-establishing relationships, redefining roles, reassessing vendor and outsourced services, and even reengineering how we think about corporate actions.

In all, I think the next 12 months will call for the corporate action arena to do some investing into our business processes and capabilities using the hard lessons of the previous year. My foresight for corporate actions envisions the road to recovery as a new but familiar journey. Last year served as a rest stop that revealed our deficiencies. This year we are collecting fuel to remove and rebuild obsolete practices. In the years to come, we will continue to renovate and repair to keep building efficient people, processes and technology to best serve clients and the industry.

O'Connor: Operating models will need to evolve in response to the pandemic with all financial institutions looking to introduce remote working on either a permanent or rotational basis.

As part of this revised operating model, there will be greater use of communication channels including Zoom and Microsoft Teams by the industry to support client, team and industry engagement which should result in cost savings to the industry on travel and entertainment. Focus upon achieving risk reduction, process efficiency and enhancing the client experience will be a key element of the operational model review with clients looking to technology and outsourcing for options for solutions.

Given the reliance on manual touchpoints and processes, developments in new technologies such as robotic process automation can help increase operational efficiencies by automating the basic repetitive tasks without impacting the technology infrastructure.

Using robotics, web scraping and AI techniques to source corporate action data directly from newswires, the web, vendors and other providers, then analyse the unstructured data in disparate formats using AI and machine learning to normalise can help reduce the manual validation efforts and timeliness issue for corporate actions.

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Data is everything

Rupert Booth of MYRIAD Group Technologies discusses the importance of organised network management data and how it supports and informs the business

"In God we trust; all others must bring data."

The great American engineer W. Edwards Denning's statement was clearly somewhat tongue-in-cheek, but it is nonetheless true — data is everything. In itself, it is just snippets of information, usually valueless when out of context. Properly housed and organised it becomes intelligence — essential to a bank's risk analytics, management and regulatory compliance functions. It is the most valuable asset that a bank has at its disposal. However enormous the firm's processing power, however clever the artificial intelligence (AI), systems and algorithms, it is the data that really matters; the more the better. As practised innovators in powerful data management and reporting technology, we at MYRIAD Group Technologies are vigorous proponents of this theory on the strength of long experience.

Network management methods are continually under great scrutiny as regulators and risk managers deepen their focus on the area, recognising that weak models can compromise anti-money laundering (AML) controls, liquidity management and client money protection. This makes it critical that the vast swathes of data that come into the area from the agents (and elsewhere) is utilised to demonstrate control and support.

Using this data effectively will help the organisation to increase efficiency, make better decisions, properly inform cases for projects, increase accountability and take preventative measures through analysis.

Whatever the data, and however much there is of it, it is next-to-useless if not structured and presented sensibly. Logically

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framed and coherently displayed, with context and workflow, nothing is more powerful. The information imparted to network management from the custodial and correspondent network must be intelligently delivered to be able to support and inform the other divisions within the bank. The MYRIAD platform has been engineered to provide this facility, extensible throughout the organisation for firm-wide transparency across the network.

The volume of data consumed by banks today grows exponentially and is delivered in a variety of inconsistent, disparate and fragmented formats. This makes it very difficult for internal stakeholders to process the pertinent information with any accuracy to build a picture and make educated decisions. It is here that the network management team plays an increasingly proactive role, in line with its own evolution, which has been profound over the last few years. The traditional responsibilities of the network manager — risk manager, regulatory and financial crime compliance, cost management, capability assessment and market information specialist — have somewhat morphed (while substantially maintaining the weight and content of these duties). Internal coordinator, knowledge provider, data integrator, partnership manager and driver of new technological solutions have now broadened their remit. Innovation is needed to concentrate this expertise, and innovative platforms are needed to deploy it to the greatest effect.

In assuming charge of data aggregation and integration, the network management team becomes a comprehensive source of knowledge for the whole business. In collaborating with other areas (global banking, markets, securities services, cash management) inside the organisation, it becomes invaluable as a source of information and an increasingly important player in the development of strategy and implementation procedures for the bank, as well as for its own clients. It is now the internal function charged with coordinating many different activities between a variety of business streams (legal, regulatory compliance, risk, credit, operations, IT/cyber) across banks that are utilising external and internal agents. It is crucial that just one party has full visibility and oversight of these agents and the information imparted by them.

"Whatever the data, and however much there is of it, it is next-to-useless if not structured and presented sensibly"

Such centralisation helps to mitigate the risk of separate stakeholders within banks establishing their own bespoke network solutions, which could lead to a surfeit of external agents, overlaps, inefficiencies and unnecessary costs. Network management collates, manages and deploys all the data, and so this risk is adequately controlled — but only if it is well-organised and immediately accessible through a specialised platform.

Since network managers execute a critical role in monitoring risk management, regulatory and financial crime compliance, technological innovation and evolving risk dynamics will have a direct effect on their traditional activities. The rigorous regulations on client money protection and the recognition that significant client assets are often held via third-party agent arrangements drive a heavy set of compliance obligations for firms. Regulators are seeking evidence of a strong set of procedures and enhanced control mechanisms.

The reputational and financial damage of poor account management can be a significant management distraction. For firms with complex entity operating models, the need for consistent standards and integrated control systems is of particular concern. It is only sensible, then, to deploy tools that encourage full transparency throughout all elements of the network — account structures, fees, assets under custody and documentation. Speaking as both an ex-network manager and before that an operations manager reliant upon the former, I have seen the fallout of the lack of the right technology from both perspectives. Neither was a pleasant experience.

"The network management team becomes a comprehensive source of knowledge for the whole business"

Reflecting the asset segregation of the bank's customers is a top priority in complying with the customer protection rules of the US Securities and Exchange Commission, Commodity Futures Trading Commission, Financial Industry Regulatory Authority and UK's Financial Conduct Authority, among others. The US Office of the Comptroller of the Currency also requires that banks standardise and document the risk-weighting process they use to evaluate the safety of their assets and client assets held at all their external service providers. In an audience poll conducted at The Network Forum in 2019, 60 per cent of the respondents said they are most affected by the Alternative Fund Managers Directive (AIFMD) and UCITS V when it comes to segregation of client assets.

Regulatory requirements (or at least the thrust of the directives) mandate that measures are in place at banks and global custodians to prevent the loss of assets at the local agents. The global custodian must ensure protection by wording custody contracts to ensure that the agent has sufficiently protected the assets and cash of the ultimate fund manager by separating them from their own assets.

Network management must be able to report all this to the regulators and the risk committee (often comprised of product compliance, legal, regulatory reporting and risk and control departments) to decide whether to retain the local agent bank relationship or to remain in the market at all. A reporting suite, integrated with a clever network management platform to source and present the data intelligently, firmwide and automatically, is an invaluable asset to this end.

The enormous array of information and records involved in executing this work must be captured in systems that can impart the data as intelligence without delay, to communicate the exposure to credit risk should there be a local custodian bankruptcy, highlight the issues that are outstanding at the global custodian, automatically score an agent's performance against a service level agreement, assess the results of a request for information or rolling due diligence exercise and alert to the expiry of documentation, all digitally held in context, governing each relationship.

If the data is held in a discordant fashion, in various systems that do not talk to each other, this in itself is a risk. It will compound the operational, regulatory and commercial risks that network management would seek to address and alleviate. The chances of being able to present a coherent set of data in consolidated report format, quickly, for the benefit of any department in the firm would be extremely slim.

The ability to present network data as a full risk or regulatory report from a dedicated platform is a huge advantage in strengthening a bank's resilience to adverse events and in satisfying the regulators. An implementation of the MYRIAD platform delivers that advantage.

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Business development
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The lifeblood of financial markets

Reference data is the lifeblood of financial markets, and industry participants are looking to standardise, enhance and improve its quality for now and in the future

Maddie Saghir reports

In the asset servicing industry, reference data refers to the data used to support a transaction. This information provides details about the instrument being traded, the entities involved and the transaction detail particulars. Data can be either static or dynamic. Static data is any data that does not change over the course of the transaction. This can include the information above, together with details about the financial product and terms (for bonds). Meanwhile, dynamic data is any data that can change throughout the lifecycle of the transaction such as pricing, exchange rates, interest rates and credit ratings.

Sarah Carver, head of digital at Delta Capita, explains: "Reference data covers a wide variety of different information that is relevant to all financial transactions and includes the specific data for each individual type of asset class, meaning that reference data is relevant for all asset classes."

For example, equity transactions require details of market makers and pricing, whereas bond transactions require details of the coupon rate and term.

Martijn Groot, vice president of strategy at Alveo, stipulates: "Reference data is a significant spend for financial services firms as they buy it from various data providers, employ staff to manage it and check its quality, and often store it multiple times."

With this in mind, reference data plays a vital role in the industry as participants look to enhance, standardise and improve the quality of reference data.

The lifeblood of the financial markets

Reference data can benefit the market in a number of ways and it is growing in scope, volume, complexity and importance.

"Reference data is the lifeblood of financial markets and describes the environment in which transactions take place," affirms Groot.

"Reference data is a significant spend for financial services firms as they buy it from various data providers, employ staff to manage it and check its quality, and often store it multiple times"

As the scope of data grows, experts suggest financial institutions need to diversify their assets. For example, moving into alternative assets comes with its share of new types of reference data to manage.

"With consolidation in the banking and asset management sectors, the volume of data has mechanically grown, in terms of the number of clients and products for example," comments Yann Bloch, senior pre-sales and product expert at NeoXam Americas.

Regulations such as the Securities Financing Transactions Regulation (SFTR), the second Markets in Financial Instruments Directive (MiFID II), and the Fundamental Review of the Trading Book (FRTB) require complex data. This is why dependable reference data is becoming critical for regulatory compliance and business decision-making.

According to Carver, as reference data contains information about the instrument and connected parties in the transaction,

the correctness and completeness of this data assists in the smooth flowing execution of trades through the industry. However, when this data is incorrect or missing, delays in settlement or a transaction failing can occur as a result.

Indeed, one of the key challenges of reference data is the number and variety of different sources of information, which can lead to errors.

Due to the importance of reference data and the benefits it can have on the markets, many participants are looking to mitigate some of these challenges by simplifying the reference data management process.

Reference data management is complex because of the number of terms products can have (from a few to many thousands), the variety of execution venues and tracking of what products can be sold to whom.

Additionally, there are different identifications schemes used for products which mean firms often need to cross-reference.

Groot explains that the problem has been exacerbated because many firms have historically managed reference data in silos, meaning they have kept multiple copies in standalone databases or in applications.

This has meant they often buy data multiple times and there can be discrepancies from store to store leading to uncertainties. More importantly, Groot highlights that storing data multiple times means the cost of change to cope with new requirements is high. Regulators increasingly require more information on transactions and put demands on the data sourcing and preparation processes too.

"Streamlining the acquisition of data to source it once, cross-referencing and putting it into a common format before distributing it to end users and business applications will reduce existing operational cost but also prepare the business to better handle future requirements," Groot says.

"Having in place clear and robust data management processes ensures that you have confidence in the reference data that you are relying on to complete transactions," says Carver.

Carver highlights that using technology to assist in the management of this data is important, but so is having the right individuals in place, usually a data analyst or data engineer who can take ownership of this reference data.

Similarly, NeoXam's Bloch suggests using proven tools, such as enterprise data management platforms, with robust data models and the right blend between built-in best practices and flexibility to adapt, can streamline the overall process.

Speaking the same language

As well as simplifying the process, in order to more effectively reap the benefits of reference data, industry participants are looking to improve the quality of it and standardise it too. Reference data is meant to be exchanged between all the parties in a buy/sell trade, between a financial institution and its clients, or between a firm and its regulators.

Bloch notes that when exchanging information it is important to speak the same language, and that is why the international securities identification number (ISIN), market identifier code (MIC) or legal entity identifier (LEI) has been introduced.

"Regulation will typically mandate the use of these standards, and contribute to their industry-wide adoption, as is the case for LEI, which has been introduced by the G20 after the 2008 crisis, and further enforced through MiFID II and now SFTR," Bloch states.

Reinforcing the idea that regulators are taking an interest in the reference data used by companies to complete financial transactions, Carver notes that there is a clear emphasis from regulators that financial transactions be properly monitored, counterparties and entities are correctly identified, and information is clear and robust throughout the lifecycle of the transaction.

Having incomplete or false data can lead to a loss in capital and have adverse effects for clients, requiring restitution to be made and both time and cost to the company. When it comes to improving the quality of the data, experts say this can be done by minimising the number of data acquisition channels and databases.

According to Groot, having an operations group overlooking this and using data management technology to compare data sources, signal discrepancies, monitor quality levels and track data usage will help a firm make the most of the data it buys.

Bloch explains that proper data management and governance is what ensures that banks, as well as other financial institutions, can trust their reference data.

Through well-defined, auditable processes and specialised software platforms for enterprise data management, firms can build their single point of truth for reference data and market data, which will be used enterprise-wide.

"Failing to have these data management and governance processes in place may lead to reporting errors and uninformed decisions. It often also leads to more workload to avoid these bad outcomes, when teams research and fix each and every data point on a report, simply because they did not trust the reference data sources it came from," states Bloch.

Meanwhile, new technologies, fintechs and partnerships are making a significant impact on managing the world of reference data. Just over the past few months, a number of partnerships have been made in this space. For example, in April, Alveo, a market data integration and analytics solutions provider for financial services, partnered with Upskills, a Murex consultant for the financial markets, to address market data aggregation, quality management and analytics challenges.

The partnership will include improving the data quality of reference data, valuation data and risk factor data fed into Murex and other trading and risk systems.

"New technology and fintechs provide on-demand or bulk data requests in a single source. This is because they are amalgamating the data from many sources including alternative datasets to increase the richness of information"

This same month NeoXam signed a strategic agreement with market data management professionals. Speaking at the time of the announcement, NeoXam said its DataHub platform enables financial institutions to better understand and tackle a wider breadth of market and reference data challenges such as data cost, multi-vendor strategies, reconciling various sources and service level agreement management.

Carver identifies that new technology and fintechs provide on-demand or bulk data requests in a single source. This is because they are amalgamating the data from many sources including alternative datasets to increase the richness of information.

"They then provide the data validation checking using SixSigma techniques, which track the accuracy, timeliness, and completeness of the data," Carver concludes.

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