

# ISSA

## Global Corporate Actions Principles Issuer Outreach 2011

Published: January 2011

### A call to issuers of securities for assistance to address a global problem!

Corporate actions range from complex events such as mergers, takeovers, exchange offers, and rights issues to simple events such as earning releases, split and bond calls.

#### ISSA Corporate Action Principles covered:

**Paperless, Automated Information Exchange:**  
*Straight-Through Processing (STP), ISO Standards and Message Content*

**Event Creation:**  
*Issuer Sourced Key Information, Required Information and Unique Identifiers*

**Event Communication:**  
*Timeliness of Notification*

**Event Processing:**  
*Process Harmonization and Publication of Event Processing Rules*

**Transaction Management, Unsettled Transactions:**  
*Protecting Investor Rights*

*"The key root causes of the problems are the lack of usage of standardized event terms and definitions throughout the processing chain and the corollary weaknesses in automation, or lack of it."*

#### ISSA Global Corporate Actions Principles, May 2010

Full ISSA documentation:  
[http://www.issanet.org/html/wg\\_as\\_set\\_serv.html](http://www.issanet.org/html/wg_as_set_serv.html)

### Executive summary

Over the past year, ISSA (International Securities Services Association) brought together experts from around the globe to address a long standing concern within the financial services industry namely, the processing of issuer announced **corporate actions**.

Working under a set of guidelines to highlight, analyze and facilitate alignment of corporate action market practices around the globe, the working group published a set of principles in May 2010.

Within most of the corporate action principles, one theme became clear as a concern across the globe – **the lack of issuer involvement in how their corporate action information is electronically delivered to investors**.

The broad financial services industry (spanning exchanges, central securities depositories, global/local custodial banks, institutional broker/dealers, institutional asset managers and retail brokers) act as a conduit in passing the issuer's information to their investors. Due to an inefficient paper initiated dissemination process, each party takes responsibility, and the associated risk, to ensure the accuracy of the issuer's event details is maintained as it electronically flows through the markets to investors.

But without issuer and issuer agent involvement and commitment as to the provision of clear and necessary data, representing the very beginning of the corporate action chain, the standardized electronic connectivity that everyone is striving to achieve, will never reach its full potential.

The purpose of this short paper is to raise the awareness of issuers of securities to this common global problem that has its roots in local market practices.

All issuers are called upon to help create a solution – or solutions - that are aimed at reducing the inherent cost and risks in the market while providing a greater ability for issuers to directly reach their investors.<sup>1</sup>

In fact, as an **issuer**, are you concerned about the following?

- **Do you have confidence that your corporate action information is directly reaching your investors as you intended?**
- **Do you have control over your details of the corporate action that are presented by servicers to your investors?**
- **Do your investors view your company as responsive to their needs?**

If you are indeed concerned, then we ask that you, with the help of and together with your agents, engage with the organizations and initiatives outlined in this paper to develop mutually beneficial processes that will:

- **open efficient channels of communication to investors;**
- **create certainty in the accuracy and transparency of information,** and
- **provide standardized corporate action key data sourced directly from the issuer and its responsible agent.**

<sup>1</sup> It is understood that securities processing is not the core business of most issuers. Issuers should therefore engage their agents who have the full understanding of the critical aspects in securities processing.

### **Issuer Sourced Key Information**

*"Key summary information must be created by the issuer. It should be, at a minimum, consumable and accessible using the ISO repository of data elements and subsequently usable in structured ISO format and should be simultaneously published to the local exchange and CSDs, regulators and the open market..."*

### **ISSA Global Corporate Actions Principle #3**

More details on the CAJWG:  
<http://www.afme.eu/document.aspx?id=3182>

More details on ISMAG:  
[www.euroclear.com/ismag](http://www.euroclear.com/ismag) or  
[www.clearstream.com/ismag](http://www.clearstream.com/ismag)

More details on CONNEXOR:  
<http://www.connexor.ch/index.html>

## **Corporate action communication – in need of change!**

For many years, the financial services industry, from central securities depositories to broker/dealers, custodial banks and ultimately those that service the investors, asset managers and retail brokers, have managed the risks involved in processing corporate action information through investment in people and technology. Still, corporate action processing is very labor intensive, whether manually transforming issuer information from paper to electronic data or checking differences of information received from various sources. Consequentially substantial cost (estimated at 400m USD in the U.S. alone<sup>2</sup>) and risk being absorbed by the financial services industry.

Main risks include the risks of misinterpretation of data leading to errors or inefficiencies, and risk of delay in the communication of corporate actions to the investing community due to manual processes.

No matter how far the industry can push to address risk, in particular by automating the manual processes, inefficiencies and delays will remain until we bring all parties to the corporate action announcement table. This must now include the initiators of corporate actions – **you, the issuers and your agents.**

## **A global problem**

Very few markets are immune to this problem. Wherever corporate actions are announced through traditional paper based practices, e.g. press release, prospectus or regulatory filing, a burden is placed upon the financial services industry to transform and interpret key information while absorbing the consequential risks and costs. Also, today, investors can be domiciled anywhere around the globe, with perhaps over 40% of investors not being local to the issuer. Therefore, multiple layers of intermediary chains operate across countries to ensure that all investors are notified of a corporate action.

## **Regional approaches**

### **Europe**

Two major cross-industry initiatives are under way, with one focusing on general practice and the other on international securities held within the International Central Securities Depositories (ICSDs).

- The CAJWG (Corporate Actions Joint Working Group) Standards are a major achievement and the catalyst for all harmonization efforts in the region. Endorsed in October 2009 by six industry associations representing the entire value chain, including the issuers, the CAJWG Standards are now the unanimously acknowledged best practice guideline for the coming years.
- The ISMAG (International Securities Market Advisory Group) initiative has finalized an Operational Market Practice Book setting a baseline for the information and service delivery by all issuers, legal counsels, and intermediaries for international securities primarily deposited in the ICSDs. Implementation of these best practices will harmonize market definitions (e.g. ISMAG Taxonomy) and practices for asset servicing, will streamline communications and increase straight-through processing opportunities.

The mapping of corporate action data to ISO standards is a way to encourage the standardization of messaging throughout the chain of intermediaries. In Europe, Euroclear Group CSDs have defined and planned implementation of ISO 20022 messages for the interaction related corporate actions between issuers' agents and CSDs in line with European market standards.

The Swiss market infrastructure operator, SIX Group, launched a web-based service (CONNEXOR) for financial instrument reference data capturing, life cycle management and supporting an electronic information flow between issuers, market infrastructures and intermediaries.

<sup>2</sup> A Business Case to Improve Corporate Action Communications, p. 21, June 2010 (<http://xbrl.us/i2i>)

More details on XBRL:  
<http://xbrl.us/i2i>

### **Americas**

The U.S. financial services industry has launched the 'Issuer to Investor: Corporate Actions' initiative. Building on the use of XBRL for Financial Reporting, a XBRL Corporate Actions Taxonomy has been created that enables issuers to disseminate key information to investors in a standardized, electronic mode. The Canadian central securities depository has been participating in the U.S. initiative with the aim of developing an XBRL taxonomy that complies with the ISO 20022 standard, for application to corporate action announcements by Canadian issuers.

Brazil and Mexico have moved forward towards the adoption of ISO standards. In Brazil, the capital market infrastructure operator (BM&FBOVESPA) has developed an XML based system for corporate actions called RADAR. Mexico's Central Securities Depository (S.D. Indeval) has created a corporate action platform that is being automated with the adoption of the existing standards in ISO 15022. The platform is being prepared for the future adoption of ISO 20022.

### **Asia/Pacific**

The general practice of stock exchanges and central securities depositories is to collect corporate action information directly from the issuers in various forms including paper documents, PDF (text file) or online through proprietary networks. Then they transform the information into electronic data suitable for distribution to their participants. This practice is consistent across the region. There are few regional initiatives; yet several markets are pursuing or have introduced ISO standards for dissemination of corporate action information from the market infrastructures to their participants. The issuer sourced information in a standardized form (e.g. ISO 15022, XBRL in CA taxonomy) has not been introduced actually but discussions have been in progress.

In Japan, XBRL is already used by issuers in financial statement and corporate governance reporting, not yet for corporate actions. However, straight through processing is on an advanced level. The Tokyo Stock Exchange provides corporate action data in ISO format (currently ISO 15022) through its Tokyo Market Information Service (TMI) to securities companies, custodian banks and other intermediaries. Those in turn, disseminate it to their institutional clients in ISO format for internal onward processing.

### **Middle East and Africa**

A move towards using ISO standards for corporate actions is under way with some markets further ahead than others. Most notably, substantial progress has been made in South Africa, United Arab Emirates, Lebanon and Egypt.

### **Global solutions - different but the same**

The financial services industry has firmly stated that the issuers need to be involved in solutions. While no one single solution may be applicable to all markets, the principles are clear in the quest for electronic notification throughout the corporate actions chain – **standards and market practice.**

Over the past 15 years, the financial services industry has worked across the globe to develop standards and market practice for corporate actions. Under the ISO umbrella, ISO 15022 and now ISO 20022 have evolved into the recognized standard that has been widely adopted by markets and market participants. By leveraging this evolved knowledge and now engaging you, the issuer, the industry can present local solutions based upon a common approach that will provide a uniform view of the markets no matter where the issuer is domiciled or into which market(s) the issuer wants to list or distribute its securities.

ISO standards form the backbone of how information is communicated within and between global markets. With Issuers tapping into markets outside their domicile and investors ready to invest overseas the use of a standard is critical to ensure the maintenance of efficient securities markets.

More information on ISO:  
<http://www.iso15022.org/> or  
<http://www.iso20022.org/>

## **A call to issuers to support the securities markets**

### **We need your help!**

Although the initiative is driven by the global financial services industry, we believe the need for improvement will resonate with issuers. **Consider the benefit in:**

- **Knowing that your announcement is conveyed exactly as you intended**, in a timely manner under a transparent, standards-based process to the end investor;
- **Communicating your information in a single, controlled, standardized manner**, regardless of geographic location, rather than expecting that multiple servicers and investors will all interpret it in the same way, or
- **Clearly understanding what key data investors require**, as a summary of the corporate action.

While we are asking issuers to provide corporate action announcement data in an electronic manner (whether it is in XBRL, a simple spreadsheet or input into a web based form) the key data is a small subset of the written material detailing your corporate action events. In fact, this should be a traceable extract of your current disclosure material and the data readily verifiable to the traditional announcement documentation. Your agents should assist you or may even do it already.

Certainly we recognize change does not come without cost but we expect the long term benefits of a more efficient, standardized and risk adverse process will ultimately outweigh these costs.

We ask that you support this collaborative initiative by reaching out to the representatives listed below and share this information with other members of your firm and trade organizations that represent your industry.

## Acknowledgements and contact information

The following financial services industry organizations have provided support for this initiative:

Region	Organization	Members Representation	Website
Global	Association of Global Custodians (AGC)	Global Custodians	<a href="http://www.theagc.com">www.theagc.com</a>
Global	International Securities Services Association (ISSA)	Custodians, Central Securities Depositories, Asset Managers, Investment Banks	<a href="http://www.issanet.org">www.issanet.org</a>
Global	Society for Worldwide Interbank Financial Telecommunication (SWIFT)	Financial Institutions, Corporates	<a href="http://www.swift.com">www.swift.com</a>
Americas	International Securities Association for Institutional Trade Communication (ISITC)	Global Custodians, Brokers/Dealers, Investment Managers	<a href="http://www.isitc.org">www.isitc.org</a>
Americas	Securities Industry and Financial Markets Association (SIFMA)	Broker/Dealers	<a href="http://www.sifma.org">www.sifma.org</a> <a href="http://www.corporateactions.org">www.corporateactions.org</a>
Americas	Americas' Central Securities Depositories Association (ACSDA)	Central Securities Depositories	<a href="http://www.acsda.org">www.acsda.org</a>
Europe	International Securities Market Advisory Group (ISMAG)	Issuers, Issuers'Agents, International Central Securities Depositories, Global Custodians and trade associations: ICMA, ICMSA, ISSA	<a href="http://www.clearstream.com/ismag">www.clearstream.com/ismag</a> <a href="http://www.euroclear.com/ismag">www.euroclear.com/ismag</a>
Europe	European Central Securities Depositories Association (ECSDA)	Central Securities Depositories	<a href="http://www.ecsda.com">www.ecsda.com</a>
Europe	Association for Financial Markets in Europe (AFME)	Broad range of global and European participants in the wholesale financial markets	<a href="http://www.afme.eu">www.afme.eu</a>
Europe	Corporate Actions Joint Working Group (CAJWG)	Several European financial services industry associations involved with corporate actions processing; European Issuers being one of them	<a href="http://www.europe.sifma.org">www.europe.sifma.org</a>
Asia Pacific	Asia Pacific CSD Group (ACG)	Central Securities Depositories	<a href="http://www.acgcsd.org">www.acgcsd.org</a>
Africa & Middle East	Africa & Middle East Depositories Association (AMEDA)	Central Securities Depositories	<a href="http://www.ameda.org">www.ameda.org</a>

Contact one of the following members of the ISSA Corporate Actions Working Group (via your agents, together with them or directly) to discuss any aspect raised in the paper:

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### About ISSA

The International Securities Services Association ISSA is domiciled in Zurich. Its mission is to provide leadership in the formulation and promotion of best practice to improve efficiency and risk management in the global asset servicing industry. ISSA embraces all institutional service provider segments along the investment value chain (stock exchanges, clearing houses, central depositories, custodian agent banks, broker dealers, asset managers, transaction insourcers, and similar institutions). ISSA is sponsored by the twelve firms whose logos appear on the first page of this paper. The association currently has around 80 member institutions in 43 countries.

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