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## **CORPORATE ACTION DATA SOURCING**

**The Case for a Standardized, Automated Single Source Model**



**February 2023**



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## 1. Summary

The sourcing of Corporate Action data is, for many in Securities Services, an ongoing challenge. Issues, such as inefficient processes and ineffective market regulation, continue to impede the ability of the industry to provide accurate, complete and timely information.

These issues, however, are not only affecting the Securities Services industry. They also impact the flow of information to brokers, fund and portfolio managers as well as – ultimately – end-investors. As a result, the ISSA Asset Servicing Working Group (WG) created a subgroup to investigate the challenges of sourcing Corporate Action data, with the aim of identifying viable solutions which the financial market could adopt.

This paper is the outcome of the WG's review. It provides information which:

- Identifies the key challenges faced by Securities Services providers when sourcing Corporate Action data
- Gives the rationale for change
- Offers different potential solutions as well as `Fast Facts` on certain markets which have already transformed the way they source data
- Outlines the benefits of moving to a Single Source model as well as offer best practice guidance to those who are currently considering this change.

The paper should be read by all parties that are involved in the sourcing of Corporate Action data and are struggling with inefficient processes and/or ineffective regulation. The WG participants recommend that Securities Services providers should read it and then review the information with their technology specialists and their local regulators. By sharing this information, outlining the challenges as well as highlighting the solutions that already exist, Securities Services providers have the opportunity to shape a better future for both themselves and the broader financial industry.

## 2. Challenges

### 2.1 Introduction

The challenges faced in sourcing and processing corporate action data are many and diverse. However, there are three main themes that the WG participants have identified that need to be resolved for the sourcing to work effectively.

### 2.2 Key Issues Identified

#### 2.2.1 Inefficient Processes

There are many examples of inefficiency in the existing process for sourcing of corporate action data. These include:

- The actions of creating a Golden Copy, particularly the processes around multi-source comparisons, are repeated multiple times by multiple institutions.
- The data that is needed, from the Issuer and/or Paying Agent, may not always be completely accurate or may be incomplete at the inception of the event. This means that updates are frequently needed and the multiple parties in the chain have to request this outstanding information.
- The non-standardized format, and inconsistent use of terminology, of certain corporate actions means there is a high level of interpretation risk to transform the information into a standards-aligned message. This is especially prevalent with more complex Corporate Actions which carry multiple outcome and instruction possibilities.
- Legacy technology limitations inhibit the ability of many institutions to process in a standardized and automated way, leading to a substandard product offering and integration challenges for the institutions' partners.

#### 2.2.2 Ineffective Regulation/ Market Rules

Whilst inefficient processes cause frustrations for the many parties in the chain, regulatory/market rules challenges are also an issue. Issues identified show both fragmented and unclear regulation/market rules, including:

- In certain markets there is a complete lack of regulation, which means change is not possible.
- Where there is regulation, there are sometimes disparate regulatory structures (e.g. in the US where issuers and banks are regulated by different bodies) which makes market alignment to drive change even more difficult.
- There is a lack of governance of the Issuer and Paying Agent community.
- Requirements for Issuers and Paying Agents are frequently unclear and/or not heeded.

### 2.2.3 Entrenched Behaviour

The final challenge that the WG participants identified is that of the behaviour of the current parties in the value chain. Parties continue to repeat the processes that have historically been undertaken, without assessing whether these are necessarily reasonable or even logical. Examples of current entrenched behaviour include:

- Parties believe that they need to take many data sources and compare them all
- For certain events, it is felt that more sources are required than for others
- Even if a party further up the chain has completed the checks, internal controls mean that further checks are necessary
- Previous losses have led to an increased focus on getting the data right first time which is currently achieved by taking multiple data sources
- Many attempts to restructure workflows around complex event processing have led to user-resistance. Where automated platforms have been put in place, users continue to create workarounds and personal tracking sheets that exist outside of the target model – which undermine the potential benefits of automation.

## 3. Rational for Change

### 3.1 Introduction

Many of the challenges that impact the existing sourcing of corporate action data are not new. However, to understand more about the specific issues, as well as the scale of the problem, ISSA participated in an industry survey which provided a global market view.

### 3.2 The Market Perspective

ISSA, with The Value Exchange and other partners, conducted a survey to gain feedback from the market on the sourcing of corporate action event data. These survey results offer valuable insights into the challenges faced by industry players when sourcing data and the impact this has on both operational processes and costs. From the survey results, it is clear that change is required and that this change should be made now.

Below are the key facts taken from the survey:

- Data sourcing is approximately 56% of the overall cost of processing a corporate action.
- The cost of procuring the data is the lesser portion of the data sourcing cost measured against the cost of the activities to get that data useable which includes interpretations, cleansing, enrichment.
- Manual sourcing of data is a key risk. Message automation improves the ability to process events by 25% and can yield up to a 50% reduction in issues.
- Of the manual sourcing burden, voluntary events make up more than 50% of the workload (and hence risk) today across the industry
- In 2022, the manual processing challenge has taken on a new urgency as hiring and retaining specialist resources (with 10+ years' experience) has become a critical problem for all market participants – causing some market participants to see their corporate action costs escalate faster than their volumes
- Single Source markets drive over 20% savings in the costs of corporate action processing – largely due to a 25% reduction in data sourcing costs (i.e. a removal of duplicative sourcing and verification)

### 3.3 Further Reasons for Change

Whilst the survey results show the overall operational and cost impact of the current processes, the WG participants also identified further reasons for industry change:

- It has long been recognized that process review should be undertaken across the different Securities Services functions. Whilst that review has happened in nearly all areas, within Asset Servicing there are opportunities to further review the approach and process flows.
- The pandemic has further highlighted the risks involved in having manual and resource intensive processes.
- Many organizations are currently looking to modernize their technology, either through new platforms or re-engineering current systems. This technology change means that organizations are rethinking current processes and looking to remove the inefficiencies - and impact of these - on internal processes.

## 4. Potential Solutions

### 4.1 Introduction

As stated above, there are many challenges that currently arise when sourcing of corporate action event data. However, these challenges are not insurmountable and there are already a number of solutions available.

The WG participants have therefore reviewed these different solutions, each of which offers an opportunity to improve the current processes. The first three enable individual markets to improve and overcome many, if not all, of the current challenges. Where these options have been adopted - as can be seen in the Fast Facts – there has been a clear benefit to the market.

There is, however, the potential for a fourth option which could transform the current data sourcing approach – the creation of a global standardized model. Whilst not a simple solution to implement, this option should be actively considered by the broader Securities Services industry as its impact would truly revolutionize the sourcing of Corporate Action data.

In summary, the four options are:

- Technology solutions for scrubbed data
- Individual markets driving adoption of standardised corporate action messages (especially for complex events)
- Individual markets adopting a Single Source Model
- A global, standardized and automated Single Source Model

#### **FAST FACTS: Australia**

- Listing rules have been updated to drive issuers (and agents) to publish their corporate action disclosures in logicized, electronic format
- ASX delivers announcements in ISO20022 format in real time
- After a phased release, the service has been live since 2021 for all event types and continues to expand to include new data types
- Key benefits of the service:
  - “80% improvement in STP” (according to one custodian) due to use of standardized, extendible event messaging
  - Reduction in resources (and risk) around event verification and enrichment
  - Improved timeliness of notification delivery to end clients
  - Significant reduction in client query volumes

## 4.2 The Solutions

An explanation of each solution, and the key benefits identified by the WG participants through the adoption of the solution, is provided below.

### 4.2.1 Technology Solutions for Scrubbed Data

As an initial step, technology solutions can help to automate and standardize the existing data sourcing processes. Such solutions have continued to mature such that it is possible to leverage an array of existing products. Software as a Service (SaaS), and Data as a Service (DaaS) models exist so any organization large or small has a greater choice than at any time prior at a price point that suits. These latest cloud-based services:

- Remove the heavy cost and complexity that was previously involved with on-premises installs
- Will adhere to the latest market messaging standards
- Offer functional advances in the process of Golden Copy creation
- Provide numerous distribution possibilities including message queues, APIs and portal integrations

Added together, the results are product offerings that allow higher rates of Straight Through Processing (STP) at a lower cost than before.

By automating and standardizing existing processes, there should be a reduction in both cost and risk to financial intermediaries which will benefit all parties in the chain.

### 4.2.2 Individual markets driving adoption of standardised corporate action messages

Whilst standards exist in many markets for the dissemination of corporate event notifications (led by the Global Securities Market Practice Group (SMPG) and its national members (NMPGs)), these standards are not always adopted by Exchanges, CSDs or Custodians in their data distribution. Where these standards are adopted, they are often applied inconsistently by each practitioner (e.g. only for certain events).

Evidence from multiple markets shows that the consistent adoption of SMPG standards for all event types, by all market participants (downstream of the Exchange/CSD) can deliver significant benefits in facilitating automated processing and automated comparison of event data. Even if underlying sources may continue to vary (and hence require continued verification), the ability to receive, store and process all events based on a single, logical data standard can remove critical risk and processing resources.

### 4.2.3 Individual Markets moving to Single Source Model

Technology-led solutions can provide a material improvement to an institution's data sourcing process. However, they do not address the root cause of the challenges – namely that multiple sources are often required to remove the interpretation risk and provide a higher guarantee of the completeness and timeliness of the data to be provided to investors. This itself then introduces redundancy risk where processes performed upstream by the data provider are repeated.

The step change needed to remove the multiple, redundant data scrubbing requirements and cost reductions is achieved when a market moves to using a Single Source Model for the provisioning of data. This is where the Issuer and/or the Paying Agent is directly responsible for providing the initial data. This must be accurate, complete, and timely data, in an electronic and standardized form, that is provided at the beginning of the process. Through using this approach, this same data can be disseminated and made available to all participants.

Whilst a change to a single source model may take time, the benefits are clear. Not only is there a reduction in cost and risk but - when implemented fully - the need for intermediaries to be involved in the interpretation and scrubbing processes is eliminated. The Corporate Actions 2021 Value Exchange Survey reported 20% saving for data sourcing and 16% saving for event processing where a market had been able to transition to a Single Source Model.

Whilst not an exhaustive list, reference markets which have already implemented -or are currently considering adopting - a Single Source Model are shown in the table below. It should be noted that each market is at a different stage of implementation and, where this is known, the status is provided.

Market	Status	Comments
Australia	Single Source Model implemented	
India	Single Source Model implemented	
Hong Kong	Single Source Model implemented (Phase I)	Income events
Russia	Single Source Model implemented	Income and Corporate Action events
Singapore	Single Source Model implemented	Income and Corporate Action events
Slovenia	Single Source Model implemented	
Switzerland	Single Source Model implemented	Corporate Action events
UK	Proof of Concept	
USA	Proof of Concept	Voluntary events

#### FAST FACTS: Singapore

- Issuers make announcements on the Issuer portal, SGXNet
- SGXNews-CeDS (Corporate Event Data Service) delivers the event announcements via the SWIFT Network using ISO-15022 standards
- The service broadcasts 38 different types of events which includes Mandatory, Choice and Voluntary events in addition to Meeting events in the Singapore market
- Key benefits of service:
  - Receive timely and accurate Corporate Action announcements directly from the Issuers
  - Improve Straight Through Processing (STP) rates for CA processing
  - Improve efficiency and mitigates operational risks

#### 4.2.4 A Global Standardized and Automated Single Source Model

If a few markets can successfully move to a single source model, the ultimate long-term goal must be a fully standardized, automated single source model across all markets globally. Whilst, technically possible – as demonstrated by those markets who have already effected the change - and offering clear benefits, the WG participants recognize that new regulations or market rules will be required in certain markets for the industry to achieve this utopia. However, these should not be a barrier to change. Through key practitioners, working across the industry, the WG participants believe that this outcome could be achieved.

The WG do not foresee a ‘squeeze-out’ of participants who operate in the data vending space. Consolidation activities would still be needed to bring together the multiple market level Single Source offerings into a convenient one-stop product, upon which the present value-added services such as cross-market standardizations, scheduled event notifications (e.g. Coupons, Maturities) and similar can be layered.

#### FAST FACTS: Switzerland

- SIX Exchange introduced their single source model over 10 years ago
- Issuers – or their Paying Agents – are responsible for entering all corporate action event data into a portal called Connexor (a direct link is also available)
- SIX spent time working with the Issuers to help them understand the changes required and how to input information into the new portal correctly
- The data is uploaded automatically into SIX’s systems for processing
- Market adoption covers 95% of corporate actions processed
- STP rates are over 95%

## 5. Shaping the Future using a Single Source Model

### 5.1 Introduction

In this section, the WG participants provide clear evidence of the benefits of moving to a Single Source Model as well as offer best practice guidance to those who are also currently considering this change. They also highlight some of the current hurdles that are faced in some markets and the clear need for regulation.

### 5.2 Benefits of the Single Source Model

As can be seen from the key facts taken from the survey conducted by The Value Exchange, along with ISSA and other partners, the change to the Single Source Model has clear and quantifiable benefits. These include:

- Increased efficiency
- Improved timelines
- Removal of redundant duplicative processes
- Removal of interpretation risk
- Reduced costs
- Improvement in customer communications and reduced query volumes

### 5.3 Best Practice Guidance for moving to the Single Source Model

There are many actions needed for the implementation of the Single Source Model to be successful. The WG participants have therefore outlined best practice guidance that should be followed when adopting the model.

#### 5.3.1 Issuer/ Paying Agent

- Be the Source of the data and take responsibility for providing it
- Provide data to the Exchange Group/ CSD that is timely, accurate and complete
- Enable access to the Source data via their website in a standardized machine-readable format
- Provide data to the Exchange Group / CSD via a portal and/or an automated link

#### 5.3.2 Exchange Groups/ CSDs or other Centralized Party

- Collaborate with, educate and train the Issuers on the need for timely, accurate and complete information
- Where the Exchange is the listing authority, to hold the Issuer to account (impose rules on the Issuers that they cannot join unless they provide the information)
- Where mandated, to collate and distribute the Source data to the market
- Implement all processes using a standard machine-readable format, consistent terminology and approach
- Automate all data flows from the Issuer through the CSD and on to other institutions
- Ensure maximum data integrity (as a pass-through agent) and timeliness of delivery

### **5.3.3 Custodians**

- Act as a flow through for data with only processing enrichment checks and additions (e.g. instruction deadlines) required
- Ensure maximum data integrity (as a pass-through agent) and timeliness of delivery – including a minimum of interpretation on core event information
- Leverage the Single Source Model to tackle some of the entrenched challenges described in 2.2.3, such as engaging and obtaining consensus from their client base that multi-source scrubbing is no longer required.

### **5.3.4 Data Providers**

- Be data consolidators (no scrubbing/additional manual procurement required), focused on delivering standardised event data across multiple markets and asset classes
- Ensure have access to Exchange Group /CSD and Issuer websites

### **5.3.5 Market/ Standard Bodies**

- Agree data standards
- Agree technology standards (ISO 20022, etc)

### **5.3.6 Regulators**

- Where required, regulate the market and mandate key participants to ensure that correct responsibilities for providing the Source data are taken
- Sanction market participants where standards and best practices are not adhered to

## 6. Conclusion

The sourcing of Corporate Action data is, for many in Securities Services, an ongoing challenge. However, what the WG participants have discovered, through their review of current processes and the Data Sourcing survey results, is that there are solutions available and, where utilized, there are benefits. This is particularly the case in markets which have adopted a Single Source Model. These markets not only benefit from removing duplicative and manual processes, therefore reducing data sourcing costs, they are also able to provide accurate, complete and timely information to their clients offering benefits across the value chain.

However, there are challenges with a paradigm shift to a Single Source Model which a self-regulating market may not be able to overcome:

- Issuers do not see the problem as theirs and have a general lack of awareness of the impact to the industry
- Currently there is no forum or standards body to promote adoption to issuers
- Questions arise around the transfer of liability to the issuer due to incorrect data dissemination
- Investors are not yet vocal in the concerns, only the intermediaries are speaking out as they bear much of the cost

For these challenges to be solved, and for a Single Source Model to become a reality in many markets, there will therefore be a need for regulators to be actively involved. This will be even more critical if the industry is to be able to move to a global, standardized and automated Single Source approach.

The WG participants would recommend that regulators or market infrastructures that set listing/ participation rules in individual markets, as well as those which cover multiple markets (such as the EU), start the work towards the Single Source Model. Without this Issuers, in some markets, will not take on the ownership to enable the process to change. The benefit to issuers is clear, and this message must be pushed wherever possible:

- Knowing that the announcement is conveyed exactly as intended, in a timely manner under a transparent, standards-based process to the end investor
- Communicating information in a controlled, standardized manner, regardless of geographic location, rather than expecting that multiple servicers and investors will interpret the information in the same way
- Enhancing transparency on general meeting proceedings and facilitating international shareholder casting of their votes

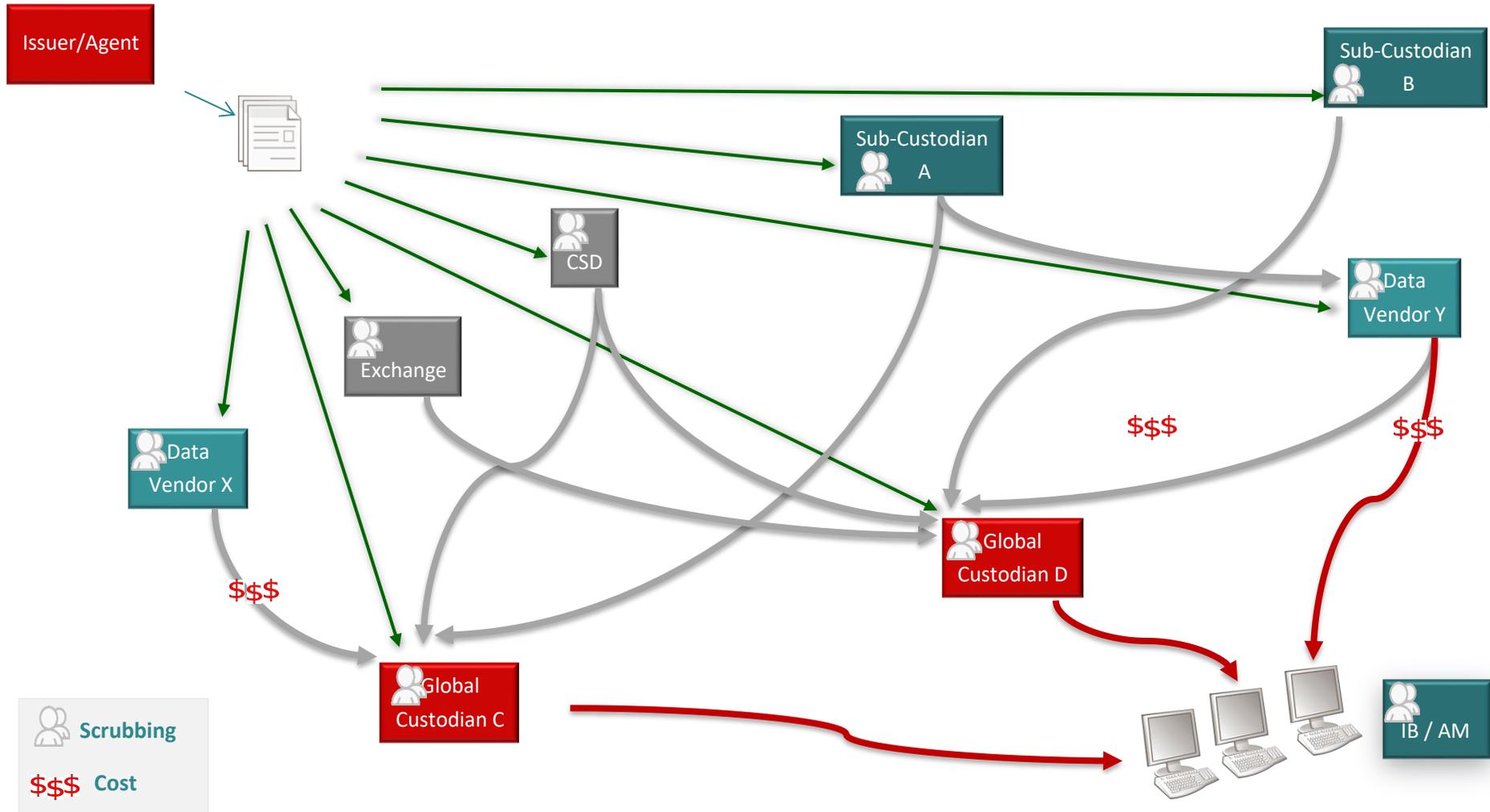
So, whilst change is rarely easy, the WG participants' efforts clearly demonstrate the case for a standardized, automated Single Source Model – a model which would help shape the future of Asset Servicing.

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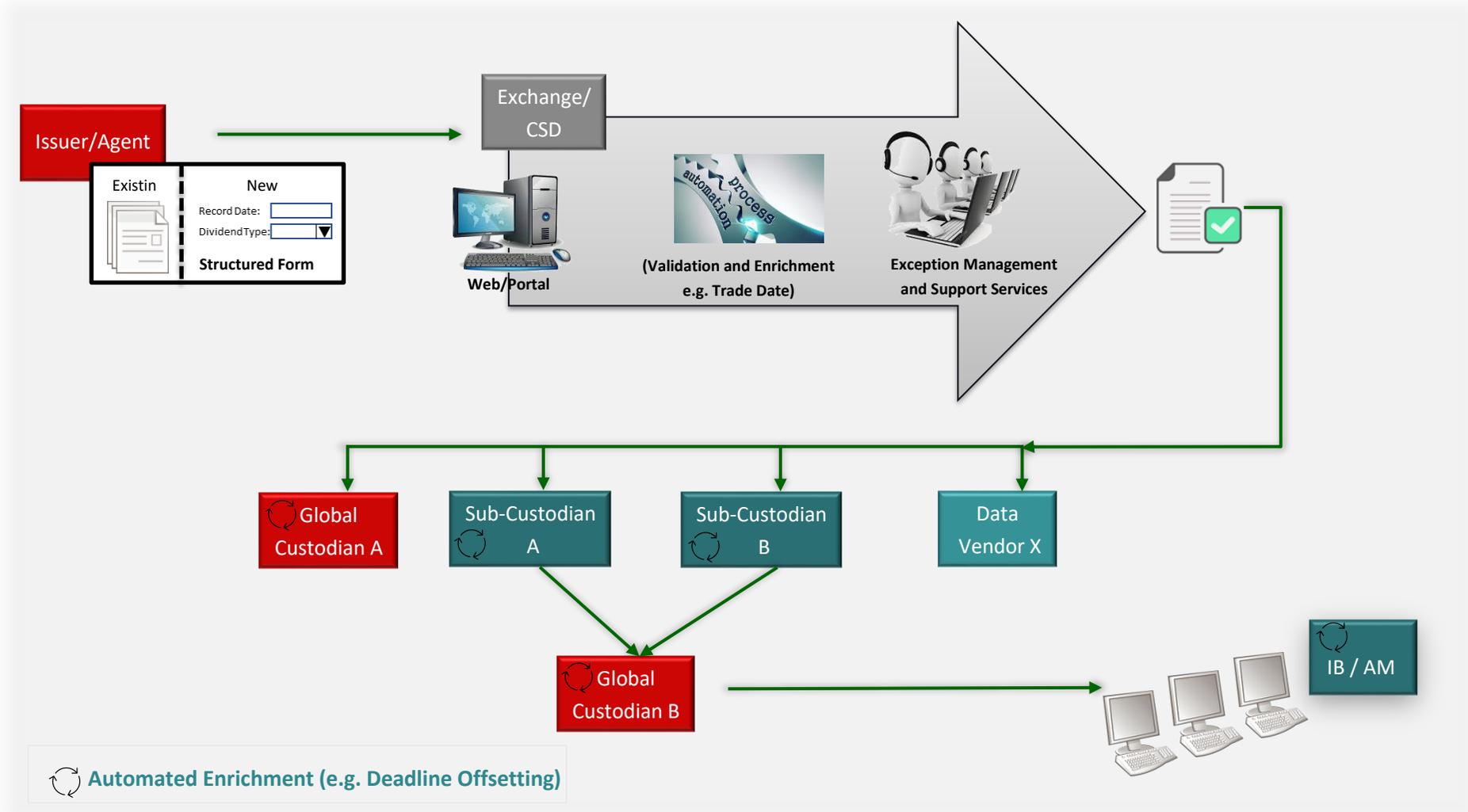
## Appendices



**I. Operational Redundancy and Duplicative Processes**



## II. Example of Improved Process Flow



### III. Dictionary of Key Terms

Concept	Definition
<b>Golden Copy</b>	The final version of the corporate action data that is distributed to interested parties.
<b>Issuer</b>	Legal Entity that sells securities to finance its operations. May be a business, government or trust. Legally responsible for the obligations of the issue and for the financial reporting and any other activities required by the regulator.
<b>Paying Agent</b>	Organization which accepts payments from the Issuer of a security and then distributes the funds to holders of the security.
<b>Single Source</b>	Where the processing of the Corporate Action is possible from one source of data without the need to compare that data to additional sources to create a richer Golden Copy of information.
<b>Single Source Model</b>	Term used to describe where the data, that makes up the terms and conditions of the corporate action, originates in a standardized electronic format directly from the Issuer or Paying Agent without the need for intermediary involvement.
<b>Source</b>	Organization from where data originates.

### IV. Research papers (run by ISSA and the ValueExchange)

- Asset Servicing Innovation (2021), <https://thevx.io/campaign/asset-servicing-innovation/>
- Corporate Actions 2021: <https://thevx.io/campaign/corporate-actions-2021/>
- Reimagining the Corporate Action operating model (2022): <https://thevx.io/campaign/reimagining-corporate-actions/>

## **V. Working Group Participants**

ISSA would like to thank the following member organizations for their participation in this project:

- Acupay
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- SWIFT
- Tata Group
- UniCredit