

# From Dream to Reality: Automated Corporate Actions Processing is Finally Materializing

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In a world in which STP is taken for granted in trade clearance and settlement, the corporate actions area remains one of the few in securities operations that is not fully automated. Efforts have increased recently, driven in part by the Basel II accord's emphasis on operational risk.

(1) Over the last three years, spending on corporate actions technology increased steadily from \$121 million in 2004 to \$285 million in 2007. (2)

Even as automation efforts proceed, they are hampered by the lack of universal standards and by technology unable to cope with the more complex corporate action types, any one of which can generate multiple processing scenarios. The TowerGroup has speculated that despite the industry's increased investment in automation, firms won't turn their full attention to the effort until regulators raise the issue, which is "unlikely unless some watershed event were to occur, such as a sizable and public loss by a securities firm." (3)

Despite the difficulties involved with automating corporate actions processing, a select few solution providers are succeeding in changing the landscape once dominated by manual processing.

## Defining Corporate Actions

A corporate action is any event that results in a material change to a company and affects its stakeholders. The ranks of stakeholders include shareholders, both common and preferred, as well as bondholders. These events are generally approved by the company's board of directors, though shareholders are permitted to vote on some events.

Processing scenarios for corporate actions are many and varied and pose a serious challenge to any attempt to automate.

A major factor that determines how a corporate action is processed is whether it is mandatory or discretionary. In a mandatory action, the shareholder has no option or ability to take action or influence the timing of the event. The event will take place, and the shareholder has no choice, such as in a stock split. In a discretionary (or voluntary) action, the shareholder has an option to have his/her holdings affected. In short, the event may or may not happen and/or the holder can elect to participate or not, such as in a tender offer.

## Challenges of Corporate Action Processing

Every day, asset management firms are inundated with news of various corporate actions. The terms can be as simple as those for a cash dividend or as complex as those for spin-offs, mergers, or tender offers. These notifications typically originate from a variety of sources, in a variety of formats. The notifications may be:

- Transmitted electronically from multiple data vendors (some in proprietary formats),
- Communicated by custodians or broker/dealers via faxes (occasionally annotated with hand-written notes), emails, and phone calls, or
- Discovered by the firm's own research that draws on company/stock exchange websites, wire services, SEC EDGAR filings, etc.

To add to the potential for miscommunication with these fragmented sources and delivery methods, there is always the possibility that a given notification can be re-issued with amended or additional information.

Given the lack of a universal standard format, the portfolio manager runs two major risks:



- Overlooking a notification (e.g., a mislaid fax, an inadvertently deleted email), or
- Acting on a notification that contains inaccurate information, such as an incorrect date (that could lead to a missed deadline).

Either situation (though starting as a single mistake) has an exponential effect, potentially impacting hundreds of financial institutions and thousands of shareholders, resulting in financial losses for the asset management firm and undermining its reputation.

## Automated Corporate Actions Processing Solutions

The Q2 Investment Workflow System, from QED Financial Systems, includes new corporate actions processing functionality that enables organizations to move closer to their goals of achieving true STP. As with any such solution that relies on timely, accurate financial data, Q2 draws from third-party proprietary data providers for corporate actions information. Through their relationship with Interactive Data Xcitek, QED provides users of Q2 with complete, daily corporate actions data feeds that cover all North American listed/traded securities. Used by over 2,000 institutional clients worldwide, Interactive Data Xcitek is recognized as the gold standard for timely, accurate, and comprehensive corporate action data.

### Q2's Corporate Actions Processing Cycle

Each business day, the QED data center receives the comprehensive corporate actions data file from Interactive Data Xcitek, which contains all corporate actions recorded since the prior data feed. The file covers the full universe of registered securities and is not limited to just the actual securities holdings of QED clients.

### About QED Financial Systems, Inc.

The Q2 Investment Workflow System, from QED Financial Systems, provides automated corporate action processing that enables investment organizations to move closer to achieving true STP. QED Financial Systems offers its clients:

- Complete, comprehensive corporate actions data;
- Reduced manual effort through the use of automated procedures;
- Reduced operational costs; and
- Reduced risk of errors and associated liability in corporate actions processing.

Based in Marlton New Jersey, QED Financial Systems is a unique provider of a totally integrated portfolio accounting system solution to the public and private sectors. A small, privately owned company, QED carefully selects the relationships they choose to partner with and then provides an extraordinary degree of initial and ongoing service. As a result of this, QED has a 100% referenceable client base that is the envy of its industry. QED's clients account for approximately \$1 Trillion in assets managed with its largest single client managing approximately \$180 Billion.

The data is automatically distributed to QED clients who have subscribed to the service, and is applied to the Q2 Corporate Action Ledger. The Corporate Action Ledger is a security-level chronological listing of historical corporate action announcements segregated by actionable vs. non-actionable events and represents the golden copy of the corporate action announcements in Q2.

Entitlement processing has been optimized through an automated procedure that applies the announcement to each applicable security position and accurately calculates the appropriate entitlement. Run time options enable the selection of specific accounts, securities, date ranges and corporate action types for added flexibility and customization of workflow within an organization. Additionally, users have the flexibility to review the calculated entitlement before it is posted to the position.

## Conclusion

While there's a consensus that automation is a desirable goal, STP corporate actions processing is very much a work in progress. Because the complex nature of most corporate actions processing would still require some manual (human) intervention, a select few investment accounting solution providers have the necessary complements of software and service personnel to alleviate the pains associated with manual processing.

(1) "Corporate Actions Automation – Ready, Steady, Go", *Wipro Technologies White Paper* (2004), page 7.

(2) According to a report from the Aite Group, cited in "Financial Firms Spent \$285 Million on Corporate Actions Technology in 2007", *Wall Street & Technology* (January 22, 2008).

(3) "Corporate Actions Trip Up STP According to TowerGroup Research," *Wall Street & Technology* (August 22, 2006).

