




Many of you are aware that two years ago, at this forum, when the ISSA membership was asked what ISSA should be working on, a number of priority areas came up. The one that came out right at the top was corporate actions. The members not only said that this was their top priority; many also said that they would like to contribute. That is the history of our project that started in January 2009 and whose result has just been published on the ISSA website.

I want to very briefly go through what was done, and where we are as of right now. The third and most important point of course is: what are the next steps?

<b>Drivers</b>
<ul style="list-style-type: none"><li>▪ <b>2008 ISSA Symposium: Our members voted Corporate Action streamlining their highest priority</b> → Relevance to our members</li><li>▪ <b>Proliferation of organizations and initiatives in the corporate actions area. Other associations encouraged ISSA to help align efforts.</b> → Need to coordinate, align forces, avoid redundancy</li><li>▪ <b>Steady rise of complexity, diversity and transaction volumes</b> → Need for efficiency gains and risk mitigation</li><li>▪ <b>Longer intermediary chain than in clearing and settlement, but less integration</b> → Need to improve the end-to-end view</li></ul>


As already mentioned, the genesis of all was the voting by our members to have ISSA look into this subject with the highest priority.

It was established right then and emphasized by the ISSA board that there are already a number of initiatives that have been going on for quite some time, driven by various organizations. It was agreed that we really do not need to reinvent the wheel, but perhaps there was a need to coordinate and align, take a look across all those initiatives and come up with common themes, highlight best practices used in certain areas that could be used in others, too. Things done successfully in certain regions that may not be known fully in others.

At the same time, one of the drivers for making this urgent was the fact that complexity in this part of the securities processing chain has been increasing for some time. The creativeness of the investment bankers and their lawyers continues and is not going to stop. With this inventiveness, there are more options which are going to affect the processing chain, down to the investors. Therefore, if we do not have a really streamlined infrastructure, we are going to have increasing problems of risk and cost, which we are seeing already.

What is critical about corporate actions, compared to other areas of securities processing such as clearing and settlement: the chain of people who are touching the process is very long. And the time frame from the inception to the end of a transaction is also very long. It reminds us of what we heard several times in the past two days. Ray Parodi was the first to mention it in his introduction: As the industry has become bigger and more complex, we now all operate in our own boxes. That is true within our own organizations; it is true also across the industry.

As we worked on this project we realized that – particularly in areas such as corporate actions – we have been looking at things far too much from the point of view of one segment, or a couple of connected segments only, rather than end-to-end.

### Approach

**Identify existing best practices and recommendations that merit global adoption.**

- Do not re-invent the wheel; synthesize existing and emerging industry initiatives; bringing them into the limelight
- Join hands with relevant organizations: CSD Associations, Association of Global Custodians, SWIFT, ISMAG, XBRL, CAJWG... and facilitate alignment of efforts
- Highlight recommended practices, and identify areas that still need concerted action

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So the first thing that we did was to take a look at existing best practices, existing and emerging initiatives, to bring those into the limelight. The aim was not to work alone, but consult and join forces with other organizations which may be doing work in the same area already, and see how ISSA can help to align those efforts (there is some alignment already going on), highlight recommended best practices, and also identify those areas that still need a lot of concerted action.

### Working Group

**Initially, a small group of specialists identified and analyzed current key initiatives**



Citi



Deutsche Bank



Goldman Sachs



JPMorgan



UBS

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We started as a very small working group, which represented three boxes only: the custodian industry (Citi, UBS, JPMorgan), the brokerage industry (Goldman Sachs), and the corporate trust area (Deutsche Bank).







For about six months, a lot of work was done within that group and some consultation with other groups took place, particularly with ISMAG, and particularly the work by the European Corporate Actions Joint Working Group was used as a reference.

The first draft of the principles paper was completed and presented to a broader audience in July of last year, at which point we had a lot of debate. There was a lot of comment, and constructive criticism from other ISSA members, from infrastructures, from people in other parts of the world who had not seen the paper. A lot of new ideas were suggested.

The result of all this was that we concluded to have a broader working group. We included representatives of the infrastructures and SWIFT, who has made major contributions in this area, and we looked at this as a truly global exercise.

**Working Group**

**Key infrastructures and other players then joined, adding debate, new perspectives, and joining forces to produce a restructured document**

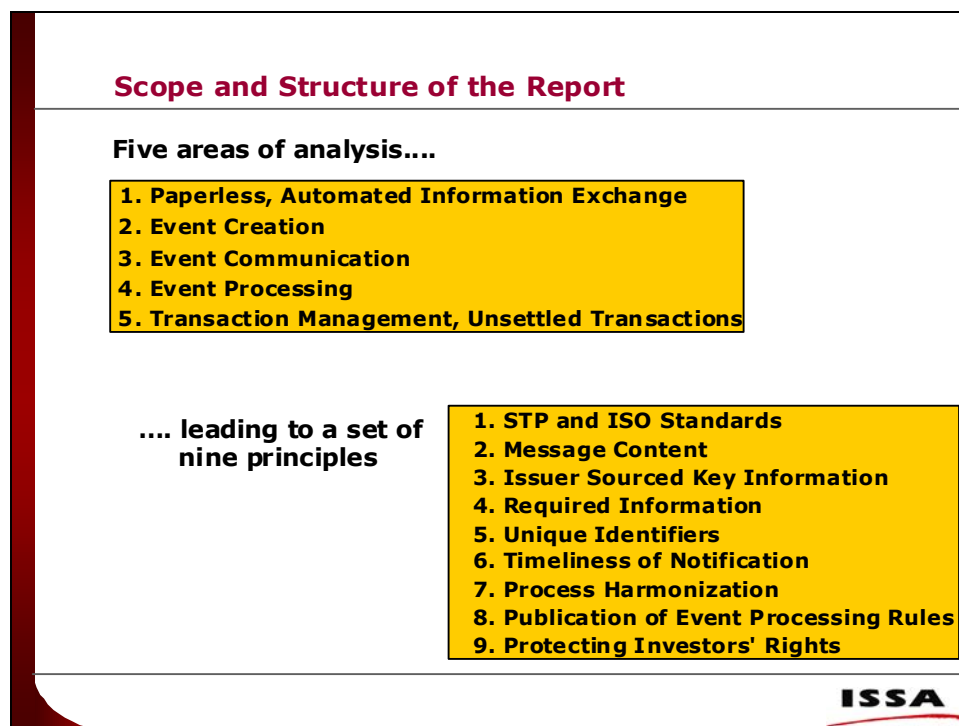
 DTCC	DTCC	—	ACSDA
 S.D. Indeval	Indeval	—	ACSDA
 JASDEC	JASDEC	—	ACG
<b>NOMURA</b>	Nomura	—	"ISSA Japan"
 euroclear	Euroclear	—	ECSDA, ISMAG
 clearstream	Clearstream	—	ECSDA, ISMAG
 SWIFT	SWIFT	—	SMPG, APASWG

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Here you see the additional members of the working group who have been active since around September of last year. Each CSD in the group was not only representing itself, it also represented its respective regional CSD association. Similarly, each of the other additions represented a wider constituency.

In addition, for the last quarter or so, we have had contributors from all around the world. Most of these have been from CSDs, some from banks, and a few others. Their contributions were in the form of comments on what the working group had drafted, but also as input to new parts of the study.

What is the report all about? There are five areas we concentrated on as we looked into the different functions that make up a corporate action.



The first: How do we get paperless, automated and STP information exchange, right from the beginning? And the "beginning" does not mean the first intermediary or the first infrastructure. The beginning should mean – very emphatically! – the issuer. We then spent a lot of time on event creation, which is really all about the issuer, the issuer's agents and everything that starts from there. Then we concentrated on communication of events, and processing of events, which is largely in the intermediary and infrastructure space. Transaction management i.e. how you handle unsettled trades, ensure buyer protection and the like, is again in the intermediary and infrastructure space.

In the end we came up with a dozen principles, and shortened them down to nine. This is essentially what they are about; this is not the actual wording of the principles.

You will note that the principles are not rocket science, nor terribly original. Most of you will have come across them in one form or the other. But one thing we all concluded: It is absolutely essential to focus on the entire industry chain, starting from the issuer, and make the process automated from that point onwards.

How is the report structured? There is a core part which explains the nine principles. And then there is a big section, done over the last six months, which our group considered important: an update of where all the markets around the world are. Now there are many markets, and some of the updates were quite lengthy. The core paper contains regional summaries only, for the Americas, Asia, Europe, the Middle East and Africa. All the details are published in four separate documents. Beyond that, we have a list of organizations that are currently working on different aspects of corporate actions, with brief descriptions and website addresses as entry points to access more detailed information. Then we have a short note on the open issues today that people are either addressing or haven't started addressing yet but that need focus – not only locally but regionally or globally.

All of this is now published and available for comment and discussion: Was this useful or not? Your views are invited!

**Next Steps**

- **Report is published on [www.issanet.org](http://www.issanet.org)**
- **Local market profiles to follow**
- **Member and third party feedback invited**
- **How do we ensure our work is and remains relevant?**

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The key question we have been discussing in the working group is: What are the appropriate next steps? It is all very well to come up and say 'Look we have done this, we agreed on the common wisdom'. But how do we monitor implementation in the different parts of the world? Who does it? Should it be done locally, regionally, globally? Should there be any kind of coordination, or at least communication around the world?

That is one aspect. The other aspect is: How do we really engage the key stakeholders who are not very much engaged yet? Notice, we have talked about CSDs, banks, and brokers, but have not really engaged yet a couple of very important additional stakeholders. The most important group we are starting to engage in this conversation are the issuers and the issuer agents. The second group we have not engaged directly but need to, are the exchanges. In some parts of the world, particularly in Asia, the infrastructures which play a key role in the creation and communication of corporate actions are the exchanges, not necessarily the CSDs. The third group we have not engaged – and perhaps it is not yet the right time to engage them – are the regulators. Many of us felt that, in certain markets, the risks of corporate actions are not widely understood. The incentives to get issuers engaged are not perfectly clear. It is important to at least make sure that regulators understand what this is all about, why it is important, and why this should really be an industry wide effort stretching beyond just banks and infrastructure.