

Corporate Actions 2009: Improving Issuer-Investor Communication by Reducing Risk and Cost through Technology Standards

A CONFERENCE BACKGROUND SUPPLEMENT

Presented by Securities Operations Forum and XBRL US, in association with DTCC and SWIFT.



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The Corporate Actions 2009 Conference on May 28, presented jointly by XBRL US and Securities Operations Forum, in association with DTCC and SWIFT, initiates the program to integrate XBRL into the corporate actions process and to bring the issuer into that process to enable greater transparency, accuracy and security. This background supplement provides a stakeholder view of the corporate actions process and takes a look at the road ahead to address the challenges.

INTRODUCTION

We are facing a time of unprecedented change in the financial community. Today’s environment is analogous to the paper crisis of the 1960s and 1970s when brokers still used paper certificates and checks for each trade. With 10-12 million shares exchanged daily at that time, brokers were buried in paperwork and trading was shortened to four days to manage the backlog. The solution was the establishment of a central securities depository, The Depository Trust Company (DTC), to record changes of ownership, eliminating the exchange of physical certificates, and to establish multilateral netting so that only a single money transfer is required.

With XBRL, we have the opportunity to address the imbalance between the amount of corporate action information being created and the ability of the industry to effectively analyze and manage that information.

Since the establishment of DTC, the automation of labor intensive, paper-bound processing has produced major benefits for the capital markets. Other subsidiaries of The Depository Trust & Clearing Corporation (DTCC) have worked with the industry, responding to the problems of manual processing across financial sectors. Today, the financial industry faces another significant paper challenge in the securities area — a process that is a source of risk for an entire chain of stakeholders.

In 2008, there were over 5.8 million unique corporate action events on corporate and municipality securities, many requiring some form of shareholder activity. The vast

volume of data exchanged today to settle trades has brought significant focus again on the processing of securities. The time has come for all players in the industry to address the imbalance between the amount of information that is being created and the ability of the industry to effectively analyze and manage that information. Today we have the opportunity to begin to address this imbalance through the introduction of a technology called XBRL (eXtensible Business Reporting Language) that can help transform textual paper-driven information into tagged electronic data. XBRL can offer a real opportunity to address a securities process that has alternatively been declared the “holy grail” or the “wild west” of the financial services industry — corporate actions.

The announcement of many corporate action types (e.g., merger, tender, dividend, bond call) requires an issuer to provide details through channels that are satisfactory in principle but do not really meet the needs of the investing community. The dialogue has been initiated to collectively address issues and propose solutions that will ultimately prove beneficial not just to the investing community and its supporting asset servicers, but also to the issuers.

While further discussion among all stakeholders is necessary, a preliminary recommendation is likely to include:

1. Engaging the issuer in adopting to the same information standard already used by securities data processors worldwide.
2. Publishing corporate actions using XBRL format for key data to achieve maximum usability, accuracy and transparency.

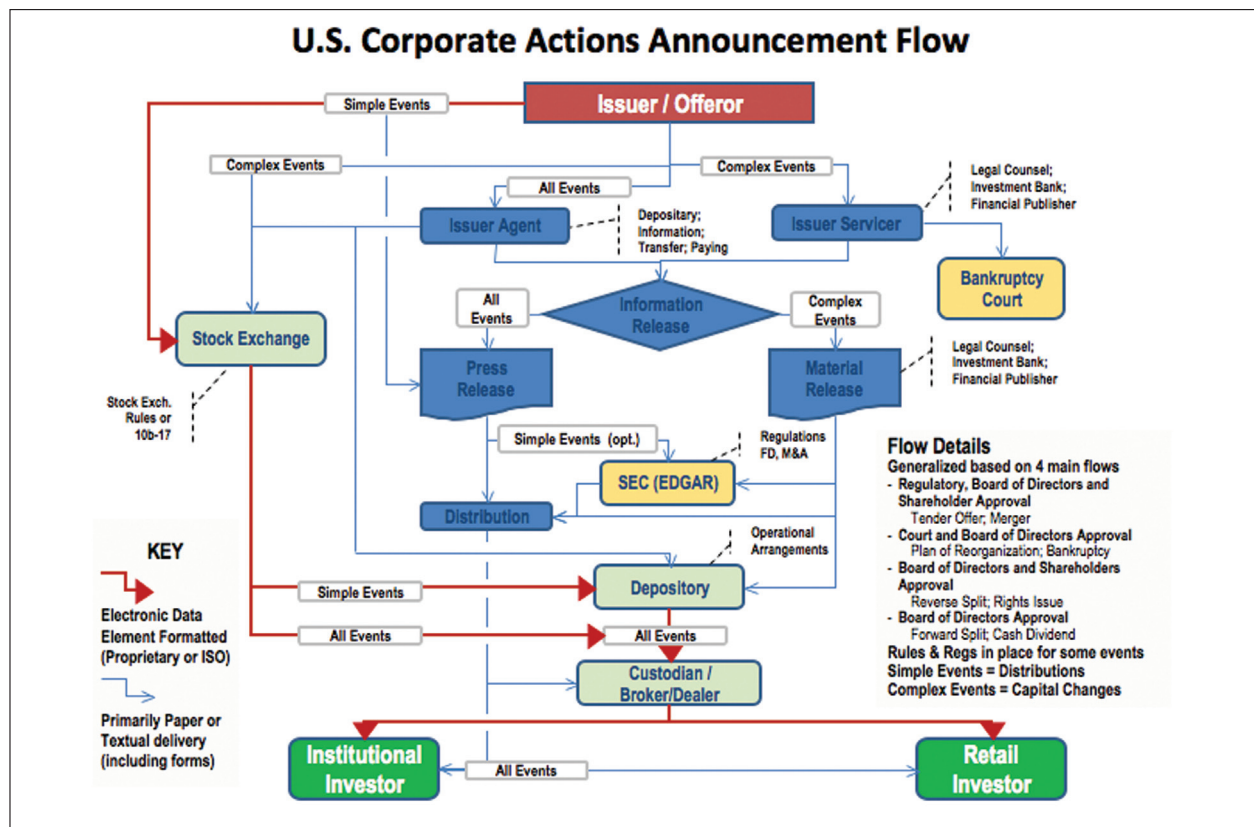
The Corporate Actions Process Today

NOTE: The following pages present a high-level overview of the Corporate Actions process today, stakeholder by stakeholder, and then outline a possible solution that could be put in place using a technology standard called XBRL. To clarify each step in the process, this paper assembles the views of individual stakeholders at different points in the announcement chain.

A single corporate action has an enormous impact on numerous players in the securities processing and investment chain. Ultimately, it is critical to providing investors with the information they need to make decisions, where needed, and to ensure that shareholder portfolios are properly managed. Although a data standard (ISO 15022 and a soon to be released update ISO 20022) is in widespread use today by custodians, stock markets, asset managers, clearing houses and others, that standard is not consistently applied and it is not used at all by the most important link in the chain — the issuer.

Once the issuer publishes a press release or a prospectus, multiple stakeholders access the data, translate it and take action based on their own interpretation of what the public company wants to convey.

As the following diagram illustrates, the path of a corporate action announcement is varied and contains many steps. Therefore, it is not surprising that a solution that meets everyone’s needs has been elusive.



The Issuer

When significant events happen in the life of a company, they are announced to shareholders and others in the form of either a press release or an SEC filing. Parties involved at the company can include legal, corporate secretary, investor relations and even financial executives, depending on the type of corporate action being issued. News releases are typically issued over a commercial wire service which gives them broad distribution to investors and securities processors. News releases are published in HTML or in ASCII Text; while they are coded for company ticker, industry and subject, the information embedded in the document itself is not tagged. The document is distributed as a flat file that cannot be searched on, extracted from or manipulated in any way. Nor is there a set format that issuers follow in developing news releases – every release is unique in terms of how the information is laid out.

Similarly, some corporate actions require the submission of an SEC filing, e.g., merger, tender offer, etc. The prospectuses developed by public companies to provide the necessary legal information and data, are submitted as flat files that cannot be manipulated. The information in a prospectus or in a news release does not follow an ISO standard (ISO 15022 / ISO 20022), for the financial transaction standards that are adhered to by all securities processors and investors that must act on the corporate action disseminated by the issuer.

The Stock Exchange

The stock exchange plays a key role in corporate actions communication – companies consult with their stock exchange about the corporate action prior to issuing their news. The stock exchange and the issuer work together throughout the life cycle of the corporate action to ensure the right information is conveyed to shareholders regarding the impact the corporate action will have on trading and/or settlement in the company’s securities. The NYSE has listing rules that are designed to protect both the company and its shareholders. Making sure the corporate action is conveyed clearly and in a timely fashion is critical to the transaction’s success.

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“Our goal at the NYSE is to ensure that corporate actions are fully, accurately and appropriately disclosed to the market on a timely basis. We work closely with issuers, transfer agents, exchange agents, DTCC, market data vendors and the trading community, both in the U.S. and globally, throughout the life cycle of the corporate action so that investors can take the appropriate actions to effectively manage their investments.”

Judith C. McLevey, Vice President,
Head of Corporate Actions & Market Watch

Issuers submit news announcements to the NYSE, and the Exchange also reviews the issuer’s disclosure documents to determine how the corporate action will impact trading. The issuer and the Exchange are in frequent dialogue about the pending event and any changes that may occur

to the initial terms, timing, etc. Once the NYSE is comfortable that it has properly translated the event from the issuer's initial document, certain key pieces of information are then transmitted to the trading community, market data vendors, DTCC and others so they can make appropriate changes to their records and systems. The Exchange conveys these events through:

- Info Notice – summary of the corporate action event, issued for any material event
- Ticker Notice – instructions on trading, settlement, etc; the ticker notice causes the action to occur
- NYSE Trader Alerts – notification about securities being admitted/suspended from trading and other trading-related matters.

Helping companies to communicate their corporate events is an important part of the NYSE's client interactions and is critical to ensuring that trading reflects the impact of these corporate actions on the value of the issuer's securities.

The Filing Agent

Filing agents, such as Merrill Corporation, are on the front line for issuer communication of corporate actions that are announced through a filing with the SEC. In many cases, it is the filing agent who will submit corporate action disclosure material to the SEC's EDGAR repository. Working with the issuer, the filing agent will typically assist them in the preparation and editing of the EDGAR filing materials, in real time, and facilitate the document review with the necessary internal as well as external parties (law firm, accountants, underwriters, advisors, etc.) depending on the type of action. With the sense of urgency to meet company and filing deadlines, there is an inherent level of risk in ensuring the "document's" content is supremely accurate and the filing format is correct.

Not all events must be announced through a regulatory filing with the SEC, nor are these events required to use the same form. For example, dividends are usually announced via a press release that may be filed under a Form 8-K (current report). However, a merger of two public companies requires SEC registration, and the corporate action information may be contained in several different form types, depending on the structure of the event. For example, a stock merger, where new stock is being registered, will require that a Form S-4 registration be filed by the acquirer, whereas an all cash merger typically triggers the need for a special proxy to be filed by the acquiring entity. For each of these events, companies submit SEC filings that announce the event, its corresponding terms and subsequent material information about it, utilizing a Form 8-K or 425, depending on the nature of the event.

Over the years, the process has evolved to a point where it is fairly routine and replicable for all the parties involved in creating and issuing the relevant corporate action material. Although XBRL has been a more recent addition to the manner in which documents can be filed with the SEC, communicating in a more structured, interactive format may prove to be beneficial over time.

Central Securities Depository

In 2008, DTCC settled more than US \$1.88 quadrillion in securities transactions, which includes \$1.7 trillion in cash dividend and interest payments and \$1.9 trillion in reorganization and redemption payments on over 5.8 million unique events (issuer-announced or based upon security attributes) processed by DTCC’s subsidiary, the Depository Trust Corporation (DTC).

Although DTC may assist issuers and their agents as the corporate action is being crafted, the event details are taken from the issuers’ written material in a similar fashion to other public parties. With a vast securities portfolio to manage, DTC employs staff to manually verify that event details such as rates, dates and terms are correctly interpreted and input into its database. Once entered, along with any specific DTC event processing details, the information flows down to participants and clients for their action.

Doing this once per event is time consuming, costly and open to risk, but where an event must be updated for more information (e.g., the shareholder meeting date was not included in the original filing, or the final entitlement and proration rates are only known once all elections have been collected), the cost of rechecking information and adding new details multiplies the potential for interpretation risk and manual input error.

Transfer Agent

Companies employ the transfer agent to manage the books and records of those shareholders who have invested in the company’s securities. As a key conduit of information between the issuer and investor,

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“As a transfer agent, our number one priority is the issuer and their shareowners. Having a centralized source of information available to brokers, DTC, transfer agents, information agents and others will ensure that registered holders and street holders get the same information from the same source. Consistent information means less confusion and helps to eliminate risk.”

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Dawn Coleman, Vice President, Wells Fargo Shareowner Services

transfer agents play a pivotal role in ensuring that investors are aware about a corporate action and, more importantly, that they know what they need to do should they be required to respond to an event (e.g., merger with elections).

Transfer agents may receive detailed event information at the same time that the issuer submits such documentation into the public domain or at other points in the process. When the information is received, the transfer agent will read through the paper material and pull out key details that 1) are used on the Letter of Transmittal for shareholder action and 2) are provided to the Shareholder

Relations department should shareholders inquire about the event. The Letter of Transmittal plays a particularly important role as shareholders must return this document with instructions, if the event

requires. Getting this document correct before distribution to shareholders is of critical importance, therefore, the Letter of Transmittal may require a number of reviews by the transfer agent and the issuer prior to mailing.

The transfer agent needs to quickly and precisely interpret the issuer's intent, to ensure the correct accounting is applied to the investor's records and to ensure that investors can act in a timely and fully informed manner.

Custodian

Custodians play a pivotal role in providing asset servicing to the investment management community that holds securities for institutional investors such as mutual and pension funds. Corporate actions processing is a major part of the role played by the custodian and one that is more manual and complicated than other activities e.g., trading and settlement.

On any given day, the custodian is inundated with corporate action announcements from the custodian's automated sources such as data vendors, central securities depositories, and local custodians throughout

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"We need consensus on an industry-wide data standard for corporate actions events that is built on an XBRL technology standard. Data and technology standards together can radically reduce processing costs and positively transform the existing process. In today's economic environment, this is a solution that makes sense for all players."

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Anthony DePalma, Senior Vice President, Brown Brothers Harriman

the world. Depending upon the type of event, the information must be validated at differing levels to ensure that the data processed and passed on to clients is complete and accurate. This validation process often requires a comparison back against the issuer's material especially for the more complicated events, such as tenders and mergers, where the interpretation risk is greatest.

Often an event is not treated in the same way in every market. Therefore, the global ISO standard and associated market practice is critical to ensure that information is communicated consistently.

While global custodians have developed systems to process corporate actions as efficiently as possible, they will not gain the full benefits until information is provided by the issuing community in a standardized, electronic form, following the ISO standard. The financial services industry has developed the collective knowledge and standard practice for corporate actions; now we need to focus on bringing it to the issuer community.

Asset Manager

Asset managers need corporate actions data to 1) manage the data in the accounting systems that calculate net asset values for their portfolios, and 2) convey information to their own portfolio managers about activities that require a decision on the part of the shareholder (e.g., in a tender offer, do they want to tender their shares, take cash, etc.).

Asset managers collect corporate actions data feeds from many sources, including multiple custodian banks, data vendors, and manual sources such as news outlets or company websites. Some organizations choose to outsource these responsibilities by purchasing corporate actions data from validation services that also compare and analyze multiple sources.

“The pain points for asset managers are in interpreting the corporate actions data feeds and validating the information against multiple sources — what we receive has varying levels of accuracy, timeliness and even completeness. There’s a lot of ambiguity that can have a significant impact on how portfolio managers respond to a voluntary event. And it can affect portfolio’s valuation when the net asset value is calculated each day. Technology and data standards together can significantly improve the accuracy and quality of information for investors.”

**Andrew Chapman, Project Manager,
Major Investment Management Firm**

Multiple corporate actions data sources are needed to validate the accuracy of the information. Data from different sources can come in at different times (some real time, some in a batch feed once/day or even days later), depending on the data source and their technical capabilities. Announcement providers can have varying levels of timeliness, accuracy and even completeness. There is a lot of ambiguity in how the information is interpreted and on how it is collected and transmitted. International actions can present even more challenges as data is not always readily available and the events can be even more complicated.

For more complex transactions, an asset manager compares each feed and is confident of the data when it finds two separate sources that match.

The lack of timeliness and potentially even accuracy of the data is an issue because portfolio advisors use the information to make investment decisions. In the case of an index fund, a corporate actions event could cause a stock to drop out of an index, prompting the fund to remove the stock. Accuracy and timeliness of this data is of paramount importance. Using a technology like XBRL can bridge the gap between the legalese of the upstream processes and

the financial speak of the end investors, with information such as critical terms of the event, taxability considerations, and event restrictions.

ISO Standards

ISO 20022 is a business-model-based standard process for the development of messages for the international financial services industry. The standard:

- Covers the financial services industry, not just securities
- Utilizes industry-led approval and development processes
- Models business processes to develop messages
- Uses industry standard modeling and messaging tools

The fact that ISO 20022 is an international standard is important because the financial services industry is global and must support cross-border transactions, more so now than ever before.

ISO standards supporting corporate actions cover the processes of notification of a corporate action event, the instructing of elections for events with choices of benefits or participation, status updates on corporate actions processing and confirmation of effects on the investor's securities or cash positions resulting from corporate actions. These messages primarily are exchanges among central securities depositories, intermediaries such as custodian banks, broker dealers and investment managers.

ISO 20022 messages also exist to cover communication and processing between a central securities depository and issuer agents/registrars within a market.

There is also a suite of messaging covering the proxy voting space for use by issuer companies, their agents, intermediaries and market infrastructures.

SWIFT has been heavily involved in the establishment and implementation of the ISO 20022 infrastructure. SWIFT uses the ISO 20022 modeling methodology in its standards development and promotes its adoption globally. SWIFT has a specific role as the Registration Authority, where it acts as the guardian of ISO 20022's integrity.

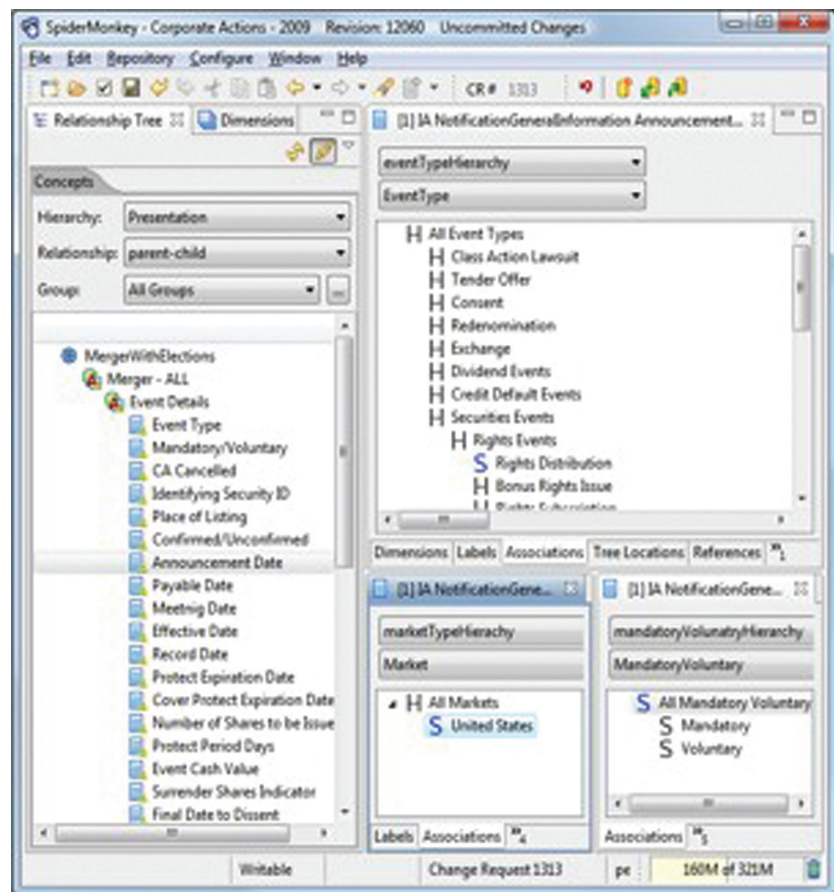
For more information see: www.iso20022.org and www.swift.com

XBRL — A Technology Solution

The corporate actions process as outlined in the previous pages is necessarily complex and lengthy given that 1) while there is an agreed-upon data standard, it is not consistently applied, 2) issuers themselves that represent the first step in the process do not follow this data standard, and 3) even with a consistently applied data standard, the information comes in many formats and is not easily actionable because it cannot be searched on, extracted or easily consumed.

To demonstrate how the corporate actions process can be streamlined and made more effective through the use of consistently applied data and technology standards, XBRL US developed a prototype collection of terms (called a taxonomy) to articulate the data collected and distributed for a merger action. Working closely with DTCC and SWIFT, the prototype taxonomy complies with the ISO 20022 standard for financial transactions and contains around 80 core elements that describe a merger, e.g., effective date, number of shares to be issued, etc.

This initial prototype will be expanded to cover all corporate action types by Fall 2009. It will cover approximately 55 events, e.g., tender offer, dividend announcement, stock split. Each “event” will have underlying elements associated with it which could range from 10 to 100 elements, depending on the complexity of the event. It is expected to contain approximately 200 core elements.

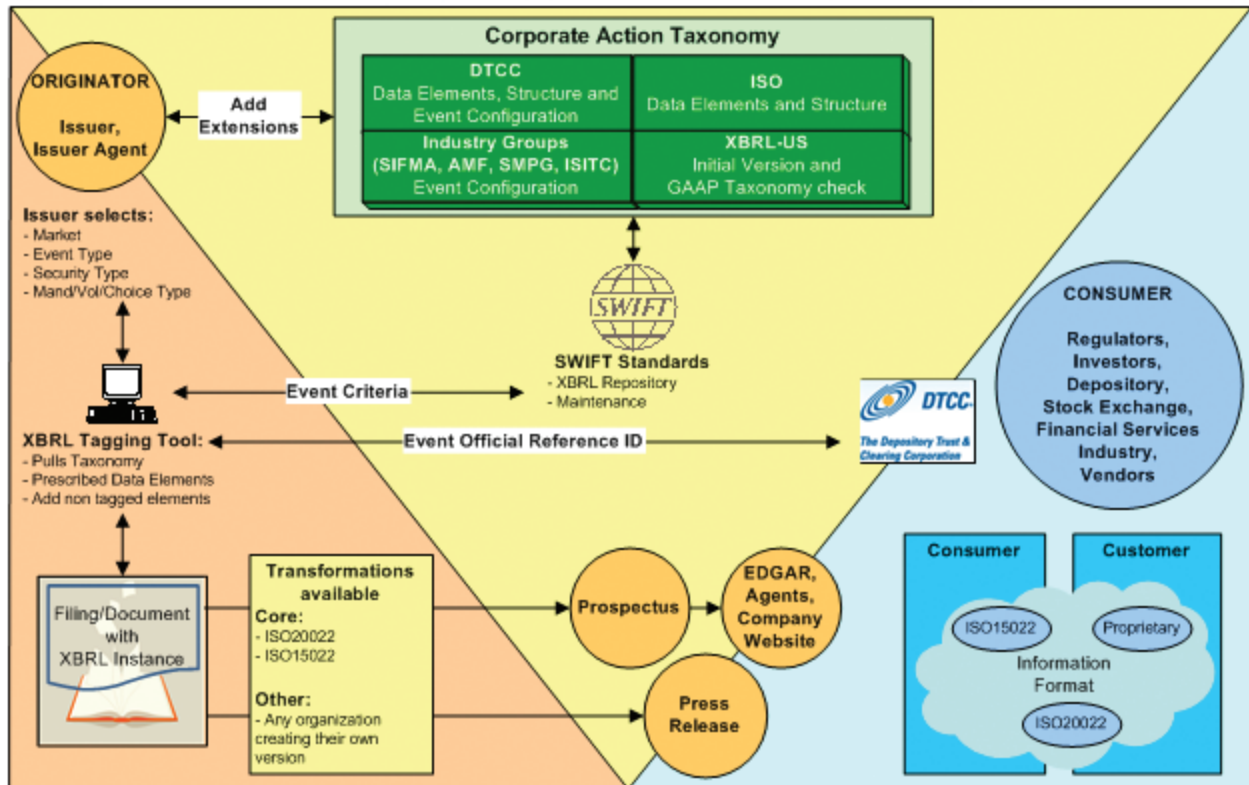


The screen shot at right depicts the event details for an action like a merger on the left-hand and a listing of the kinds of discrete events it will contain on the right, in a taxonomy development software tool employed by XBRL US.

For more information see www.xbrl.us

Going Forward –The Opportunities Ahead

Tomorrow’s corporate action announcement process should implement ISO 20022, XBRL and a unique ID.



The Corporate Action XBRL Taxonomy in development today will be based upon the business model within the ISO 20022 repository, which, for financial services, is maintained by ISO’s Registration Authority, SWIFT Standards, supported by national and global market practice groups. Once the Corporate Action XBRL Taxonomy is completed, issuers (or their agents) will be able to create their press release, prospectus or letter of transmittal in XBRL format, clearly indicating the market, event type, security type and whether the offer is mandatory or voluntary. All of the information that the issuer has “tagged” or identified within their document will be “machine readable” and can be extracted, searched on and consumed by the stock market, custodian, depository, transfer agent and, ultimately, the investor. Because the taxonomy is developed following the ISO 20022 standard, the data will be available in a familiar format to all users.

In addition, the process also includes the tagging of the corporate action announcement with a “unique ID” which will explicitly label the event, thus eliminating ambiguity in the “update” process and the identification of an event between parties. To facilitate, DTCC is implementing a registration process which issues the unique ID, and works seamlessly with the XBRL process.

The Benefits to the Industry

The benefits of this initiative will be significant as it aims to fundamentally change the corporate actions process, by capturing data from the “source” in a standard format.

Issuers: The intent and content of the originating offer will be clear to the investor, without fear of misinterpretation due to manual manipulation. The details will be conveyed effectively, improving the transparency and reducing the latency of issuer-investor communication. Issuers and their agents will have to make only marginal additional efforts. There are numerous technology tools available for creation and analytics.

Financial Services Industry: The manual interpretation, re-keying and manual exceptions will be significantly lessened. This reduces risk and cost, providing greater STP and efficiency to the marketplace.

Investors: The plan allows investors to make timely decisions with confidence that the information is accurate, since the data comes directly from the issuing source without manual intervention or interpretation by third parties. By reducing the communication latency, the investor will have more opportunity to make an informed decision on an event with the ability to start earlier and respond closer to the deadline.

Today we have a unique opportunity to bring together all parties in the corporate action announcement chain and set a stake in the ground to begin the march towards straight-through processing from issuer to investor.

The Next Steps

A few immediate next steps are:

- Expand the content of the XBRL Corporate Action Taxonomy to cover all the events processed in the U.S.
- Continue to work within the ISO framework to expand the global ISO 15022/20022 standard to cover U.S. specific data elements
- Develop the business case to ensure we can present a complete view of the process chain and identify specific areas for improvement

DTCC, SWIFT and XBRL US will coordinate these activities, which will include working with various industry bodies. If you would like to get involved, please contact either:

David Hands at dhands@dtcc.com or tel: 1 212 855 5894

Max Mansur at max.mansur@swift.com or tel: 1 703 365 6207

Michelle Savage at michelle.savage@xbrl.us or tel: 1 917 747 1714

Also, SWIFT sponsors an industry-oriented website at www.swiftcommunity.net that provides a platform for dialogue, communication, debate, and content sharing. A public community at this website has been set up with the title: CANDID - CA Notification Delivery with Interactive Disclosure. There is no cost or restriction for joining this community. The goal of CANDID is to address problems introduced by the paper-driven, textual nature with which issuers and their agents disclose corporate events to the marketplace, and to engage the issuers with standards that historically have been developed only by the central securities depositories, custodian, broker/dealer, and investor community (i.e. ISO 20022).

If you would simply like to be kept apprised of ongoing activities on the corporate actions front, please sign up for the XBRL US newsletter at <http://xbrl.us/News/pages/newsletter.aspx>

Contributors to this report include:

Brown Brothers Harriman, DTCC, ISO TC68, Merrill Corporation, NYSE Euronext, SWIFT, Wells Fargo Shareowner Services, and XBRL US

CONFERENCE AGENDA

Thursday, 28 May, 2009

- 08:00 To 08:45** **Registration and Breakfast with Exhibitors**
- 08:45 To 09:00** **Chair's Opening Remarks**
David Hands, Director, DTCC Solutions
Max Mansur, Global Market Manager, SWIFT
- 09:00 To 10:00** **Keynote Panel: Improving the Dissemination of Corporate Event Information from Issuer to Investor**
Moderator Alfred Berkeley, CEO & Chairman, Pipeline Trading
Panelists David Blaszkwosky, Director of the Office of Interactive Disclosure, Securities and Exchange Commission
Panelists Donald Donahue, Chairman & CEO, DTCC
Panelists Craig Dudsak, Managing Director, Global Transaction Services - Global Custody, Citi
Panelists Jeff Morgan, President & CEO, NIRI
Panelists Julia Warren, Senior Managing Director, New York Life Investments
- 10:00 To 10:20** **Mid-Morning Refreshment Break with Exhibitors**
- 10:20 To 12:30** **Business Case: Communicating Corporate Events from Issuer to Investor**
Moderator Max Mansur, Global Market Manager, SWIFT
Moderator David Hands, Director, DTCC Solutions
Panel 1: Issuers and their community — Producers of Corporate Actions Disclosures
Panelists Dawn Coleman, VP, Client Services, Wells Fargo
Panelists Joe Conte, Director, Securities Operations, NYSE Euronext
Panelists Michael Schlanger, SVP, Merrill Corporation
Panel 2: Investors and their community — Consumers of Corporate Actions Disclosures
Panelists Andrew Chapman, Project Manager, Vanguard
Panelists Anthony Depalma, Senior VP, Brown Brothers Harriman
Panelists Brett Lancaster, Vice President, DTCC
Panelists Jack Reerink, Global Company News Editor, Reuters
- 12:30 To 01:45** **Luncheon with Exhibitors**
- 01:45 To 02:45** **A Global View of Standards: Issuer Problems and Solutions Around the World**
Panelists Mark Bolgiano, President & CEO, Xbrl US
Panelists John Nordstrom, Director & Chief Representative, Euroclear
Panelists Peter Shi, Deputy Director Information Center, Shanghai Stock Exchange
- 02:45 To 03:45** **Solutions Through Standards: Can the Dissemination Process be Standardized to Enable Straight- Through- Processing (STP) from Issuer to Investor**
Moderator Hal McIntyre, Managing Partner, The Summit Group
Panelists Ernesto Lanza, General Counsel, Municipal Securities Rulemaking Board
Panelists William Lutz, Director, 21st Century Disclosure Initiative, SEC
Panelists Karla McKenna, Director, CITI
Panelists Malene McMahan, Senior Business Manager, SWIFT
Panelists Campbell Pryde, Chief Standards Officer, XBRL
- 04:05 To 04:35** **Afternoon Refreshment Break with Exhibitors**
- 04:05 To 04:35** **Solutions Through Technology**
Campbell Pryde, Chief Standards Officer, XBRL US
Jon Wisnieski, Senior Information System Specialist, FDIC
- 04:35 To 05:05** **Chair's Closing Remarks**
David Hands, Director, DTCC Solutions
Max Mansur, Global Market Manager, SWIFT

