

# Developing a straight-through process for corporate actions in Australia

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**Karen Webb** is a manager in the Settlement Services group at the Australian Securities Exchange (ASX). ASX is one of the world's leading financial market exchanges, offering a full suite of services, including listings, trading, clearing and settlement, across a comprehensive range of asset classes. Today, ASX is a world top-ten exchange group measured by market capitalisation. ASX operates two central securities depositories (CSDs): ASX Settlement and Austraclear. ASX Settlement is Australia's settlement system and is a fully electronic CSD for equity and equity-related securities. Austraclear is Australia's settlement system and CSD for the wholesale debt market. Karen's focus is on settlement services provided to the cash equities market. She is also the business owner of ASX's corporate actions straight-through processing (STP) project, which is an initiative to improve the process for capture and delivery of corporate actions information. Karen has held a range of positions at ASX since joining the organisation in 2000, including operational oversight of the listings, market announcement and corporate actions functions. Prior to joining ASX, Karen held various positions with UBS, including in corporate and institutional lending, credit risk management, and corporate and agency loan portfolio management.

## ABSTRACT

*Corporate actions processing is widely acknowledged to be one of the remaining areas of back-office processing to achieve automation or straight-through processing (STP). There are*

*many reasons for this and recognition that this largely manual work creates significant risk and cost for various stakeholders. Over the past few years a number of market infrastructures have made inroads to automate corporate actions announcements and processing. This paper looks at the role the Australian Securities Exchange (ASX) plays in the Australian market, and its project to introduce STP for corporate actions. The paper will explore the current challenges in corporate actions processing, how ASX approached the project, and the solution and key benefits for the industry. ASX will implement phase 1 of this project in September 2014.*

**Keywords:** *corporate actions, straight-through processing (STP), announcements, standardisation, ISO 20022, digitisation at source*

## INTRODUCTION

The Australian Securities Exchange (ASX) is one of the largest listing exchanges in the world with a total market capitalisation of around AU\$1.5trn and is home to some of the world's leading resource, finance and technology companies. About 2,200 companies are listed on ASX, representing a diverse mix of industries. Australia is an active capital market with over 6.7 million share owners and a strong funds management industry. ASX is a world leader in raising capital and is consistently ranked among the top five exchanges globally. The



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ASX Listing Rules govern certain aspects of the behaviour of listed companies, complemented by the Corporations Act 2001 (although the terms ‘companies’ and ‘issuer’ are used in this paper, the ASX Listing Rules cover all listed entities including trusts and other listed structures such as stapled groups and managed investment schemes). The ASX Listing Rules mandate that a company must lodge any material announcement with ASX for release to the market by ASX before disseminating it in any other way. Therefore, ASX is considered to be the single comprehensive source of company announcements for ASX-listed companies. ASX processes over 110,000 announcements per year and many of these announcements relate to advice of company events including corporate actions.

In July 2011, a paper by Tim Hamer of SWIFT Services Australia was published in this journal describing the need for better transparency and harmonisation in corporate actions processing.<sup>1</sup> It also included a review of the global trends in tackling this area of back-office processing that had largely remained manual while trading and settlement processes had become highly automated. Tim suggested that, besides the need for standardised messaging, market infrastructures such as central securities depositories (CSDs) and securities exchanges, as pivotal players in corporate actions processing, could play a lead role in effecting change in this space. This paper was published around the time that ASX began its journey to find a straight-through processing (STP) solution for corporate actions processing.

### **CURRENT CHALLENGES IN CORPORATE ACTIONS PROCESSING**

From ASX’s own experience (more information on the existing ASX announcement process is provided below) and

feedback expressed by key stakeholders in the market, there are numerous challenges in corporate actions processing, including the following:

- The growing number of corporate actions events and their increasing complexity.
- The numerous sources of information about a corporate action, and the availability of this information in an unstructured and non-standardised format, making it difficult to easily consume.
- The high cost of resources to support corporate actions analysis and processing.
- Operational risk through manual re-entry of data, misinterpretation and time lags, particularly for voluntary events.
- The importance of the information given its material effect on both the company share price (whether by virtue of exchange-generated changes in the basis of trading or simply due to the market’s response to the corporate actions) and security holders.
- Each stakeholder’s ability to service the needs of its customers.
- The frequent presence of deadlines for elections, acceptances or other actions that will determine the rights of security holders.

### **ASX’S EXISTING NOTIFICATION PROCESS**

The ASX Listing Rules mandate the timetables applicable to corporate actions and key information that must be announced about each type of event. ASX-listed companies and other issuers of quoted securities make announcements to the market in an unstructured portable document format (PDF). The PDF announcement is lodged with ASX via a

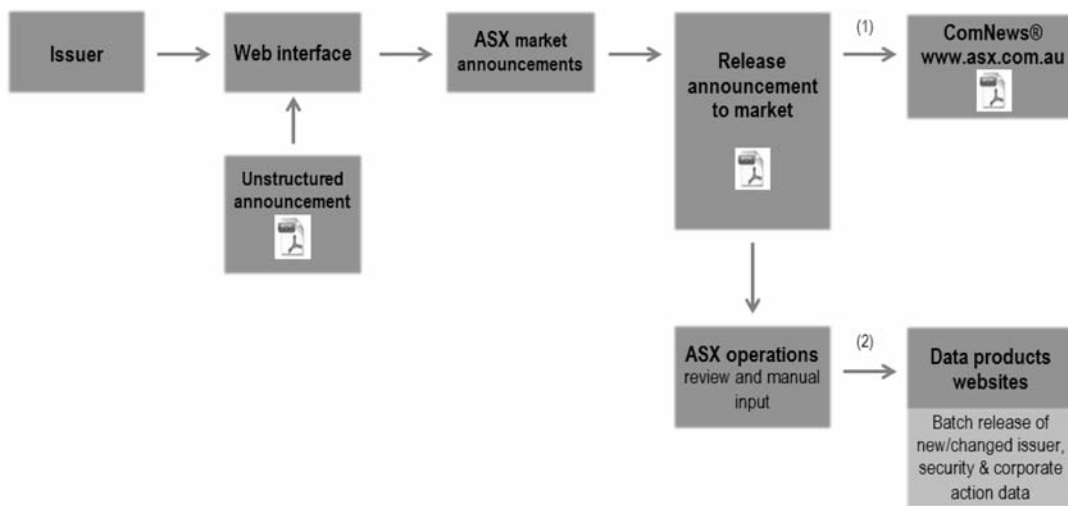


Figure 1 The current flow of information about a corporate action event from issue announcement to publication

secure browser-based service. While the ASX Listing Rules describe the required circumstances for lodging and basic content, there is generally a lack of consistency or standardised format for corporate actions announcements, beyond timetable requirements. The information about a corporate event may be spread through a number of announcements. Once the lodged announcement is processed by ASX's Market Announcements Office it is released to the market (refer to (1) in Figure 1). The announcement is then available widely for consumption — publicly on ASX's own website, through direct subscription market data feeds and by ASX's own operations staff. ASX analysts review the content of the released announcement and manually capture data in ASX's data repository for use in its own trading and settlement systems and, for the purposes of inclusion, in ASX's corporate actions notification service, in a variety of file formats for a range of delivery schedules (refer to (2) in Figure 1).

For the cash equities market, ASX publishes notifications of corporate actions only, and does not act in terms of a depository for the purpose of distributing cor-

porate actions disbursements or managing elective events. That role is performed by share registries in the Australian market; however, the settlement system does make adjustments to settled trades based on the cum and ex trading status of the affected securities. Figure 2 demonstrates the manual process of corporate actions capture that is replicated post-release of the announcement and the impact this has in terms of time and interaction between key stakeholders in the market.

## THE ASX INITIATIVE

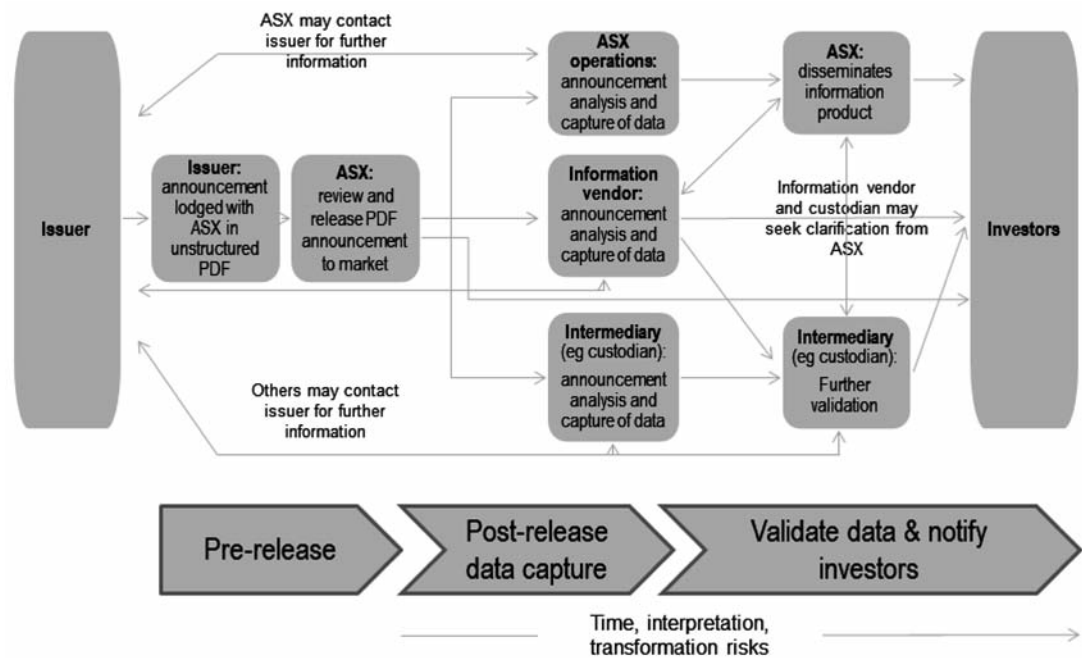
### STP and standardisation objectives

Informed by the challenges described above, ASX recognised the need for:

- timely, accurate, consistent or standardised and informative corporate actions data; and
- reducing the systemic risks and costs associated with corporate actions processing.

More generally, ASX is actively seeking opportunities to automate processes in

Figure 2 The manual process of corporate actions capture



order to take costs out of operational tasks, for both itself and the industry, and to focus on more complex or exceptional matters.

### Tackling the challenges and engaging the industry

ASX undertook a number of activities to arrive at its final solution and deliverable for the project, and to sound out stakeholders on the proposed solution. ASX reviewed the full notification cycle to identify points of potential improvement and efficiency. How could the process be improved to create benefits for all stakeholders and, ultimately, security holders? What did ASX need to do technically to prepare for any changes? What else was within ASX's sphere of influence to change? The key points from the analysis were the need to standardise the information given and to receive the information in a format that would allow for STP instead of manual data re-entry. Accordingly, at a high level, the proposed

solution was to introduce a standardised form of corporate actions announcement for listed companies, directly capture data via a new announcement mechanism — thus ensuring digitisation at source — and process that data straight through to the end consumer.

ASX was keen to hear the views of other stakeholders in the market, and considerable consultation was undertaken. ASX established a working group early in the project that consisted of representatives of listed companies, market data subscribers, share registries, participants, SWIFT consultants and custodians, among others. The purpose of the group was to inform design and data content, and to provide early validation of development, including pilot testing. It was also important for each stakeholder to understand the concerns of others as well as the end-to-end process. The initial group was then split into two groups to focus work over the ensuing months. The first group focused on those matters particular to

listed companies, while the second group focused on those matters particular to consumers of the corporate actions event information. The second group provided detailed feedback about the required information for each corporate action to support their own businesses and processes, in particular, the circumstances whereby current company announcements failed to provide this information. It became apparent that many different stakeholders (including ASX) were contacting companies post-announcement to seek missing or additional information. This group also provided input on the desired notification formats and supported the adoption of an international standard for ASX notifications of corporate actions events. ASX also engaged with key stakeholder representative bodies to seek their feedback and support.

In late 2012, listed companies were asked to complete an ASX survey with the ASX objectives being to gain greater insight into the listed company workflow processes for preparing and lodging announcements, and to build awareness of the proposal. In total, 383 companies from a range of industries and sizes responded to the survey. The key findings included:

- the majority of companies considered consulting ASX prior to making an announcement. Their main concern was to check ASX Listing Rules requirements and interpretation;
- the majority of companies considered their security holders to be the main recipient of announcement information;
- 54 per cent of survey respondents confirmed they received queries on announcement content, typically 1–5 separate enquiries per announcement; and
- most companies indicated that the introduction of structured forms would

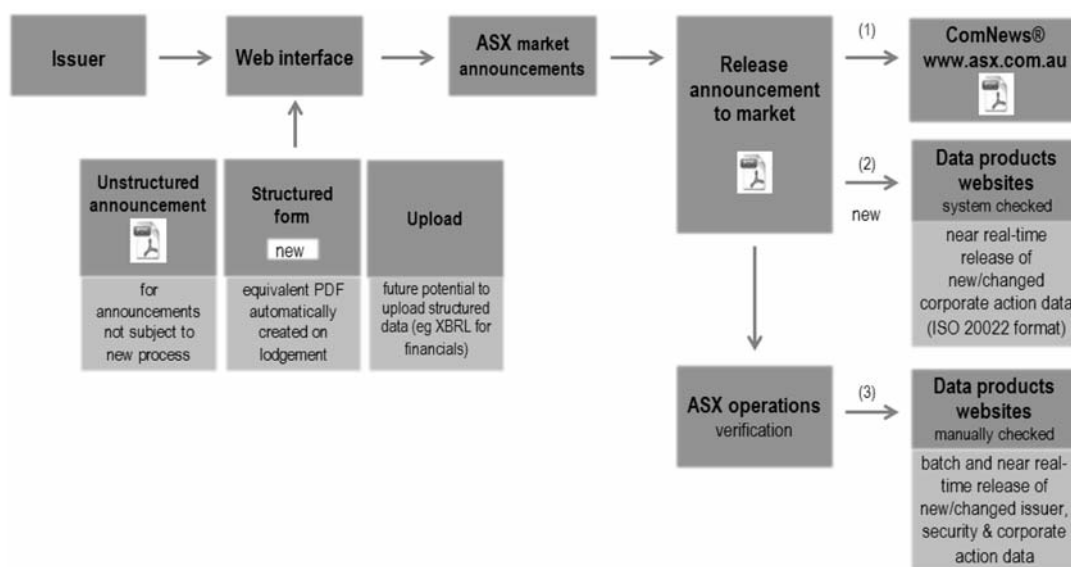
be welcome, and many expressed interest in participating in the pilot phase of the project.

The survey also asked questions about the company's workflow prior to the lodging of an announcement, including the typical time to complete an announcement, the drafting and internal approval processes.

As the announcement process is prescribed in the ASX Listing Rules, it was considered likely that amendments to those rules would be required. To that purpose, ASX engaged early with the Australian market regulator — the Australian Securities and Investments Commission (ASIC) — to provide an overview of the objectives of the project and proposed solution. In considering any proposed rule change, ASIC focuses on the impact (beneficial or otherwise) on stakeholders, particularly on the end investor.

ASX also reviewed the work being done in other countries to tackle the same challenges. At the time, a number of exchanges and CSDs (particularly in the Asia region) were in the process of implementing best practice corporate actions notification services, a few of which are mentioned here. The Singapore Exchange already had a number of announcement templates in use by listed companies and was planning to look at STP of corporate actions announcements, including standardised output. In 2012, the Japan Securities Depository Center (JASDEC) and Tokyo Stock Exchange announced an agreement to jointly enhance information services for corporate actions and implement an ISO 20022 service. Also in 2012, the Depository Trust & Clearing Corporation (DTCC) announced the launch of a corporate actions pilot programme testing ISO 20022 in messaging format for STP services in the US securities market. This pilot is part of an initiative to replace DTCC's proprietary files

Figure 3 ASX's enhanced notification process



with ISO 20022 messages. A number of these initiatives have now been implemented.

**ASX's new notification process**

Based on this analysis and feedback from stakeholders, ASX developed an enhanced notification process as demonstrated in Figure 3. The practical steps in this process include the following:

- A new structured format is available to the listed company for the announcement of a corporate action, initially utilising an online form (similar to those filled out to capture payment information for internet purchases) for each type of corporate action. The form includes pre-population and validation (pre-release) at source to improve the accuracy of information as much as possible.
- For those announcements not subject to the new process (eg annual reports, presentations and notices of meetings) the existing capability to submit an unstructured PDF announcement will

remain in place. Figure 3 also demonstrates the possibility of implementing the future ability to provide an upload service for structured data, for example, financial reports in extensible business reporting language (XBRL) format.

- Once that online form has been submitted, an equivalent PDF document is created and sent to the ASX Market Announcements Office processing queue.
- Based on the data submitted in the online form, a structured file is created and held awaiting release of the equivalent PDF announcement by the Market Announcements Office.
- As soon as the PDF announcement has been released to market, (1) the structured file is passed through the ASX database, a corporate action recorded, created or updated, and ASX then can deliver a standardised notification in near-real time (2). There is no manual reprocessing of the data in the announcement submitted by the company up to this point.
- The ASX operations team still may

review the announcement and corporate action record and add ASX-sourced information that has not yet been added automatically. Any manual review and update by ASX operations produces an update notification (3).

### **Key features of the business solution addressing the challenges of achieving STP in corporate actions notifications**

To support the introduction of the new notification process and overcome the challenges of achieving STP in corporate actions, ASX addressed a number of key factors as part of the business solution.

#### *Legal framework*

Feedback from stakeholders indicated that any attempt at STP only could be achieved in a meaningful way if all listed companies were subject to the new process, rather than it being voluntary. ASX formed the same view and worked towards mandating the new announcement process. To mandate the process, ASX proposed amendments to the ASX Listing Rules to introduce the concept of an ‘online form’. Where that form is made available for the announcement of a corporate action, a listed company is obliged to use it. New appendices to the ASX Listing Rules were created to capture the content of the online forms. The content of the form was developed through a review of the existing Listing Rules (including timetables), a review of sample unstructured announcements and after discussion with the working groups around the breadth of information available for a corporate action. It was important that the form asked all the relevant questions to fully inform downstream consumers including investors, and also to help avoid follow-up questions to the company. The minimum requirement was that information currently provided by

ASX in its corporate actions notification process, which ensured the new form met the requirements of a new standardised message format. The form also considered the workflow for the announcement of a corporate action — where not all information may be immediately available for announcement and some events may not proceed. Typically, after the initial announcement of a corporate action — which the ASX Listing Rules require to be at least five business days before the record date — a listed company may make two to three further announcements of information pertinent to the action, such as the reinvestment price for dividend reinvestment schemes or the foreign currency equivalent payments, where applicable. At present, these announcements are not made in a uniform way and do not necessarily reference back in a clear way to the initial announcement.

Each online form in the new process includes the ability to announce a new corporate action, an update to that corporate action or a cancellation of that corporate action. In the case of updates or cancellations, the entire form including original content is re-released to the market; however, the announcement is identified as an update or a cancellation and the new content is visually highlighted in the PDF announcement or indicated as an update in the market data notifications. Any change to ASX Listing Rules is subject to ASIC and ministerial approval. In this case, a package of rule changes was submitted to ASIC in 2013 and approved in early 2014.

#### *The online form*

To achieve STP it was necessary to introduce a structured format for the announcement of corporate actions that enabled the capture of this information without manual intervention; in other words, digitisation at source. For building

and introducing the online form, ASX created additional management pages on the existing announcement web portal, with the online form developed through a vendor-supplied package. The vendor solution was able to call on existing data (from the ASX database), tag all data input in the online form in extensible mark-up language (XML) format and create an XML file for downstream dissemination. The package also had the ability to transform the data captured in the online form into an equivalent PDF announcement (which looked similar to the appendix to the ASX Listing Rules) to satisfy the existing public announcement release process.

The new format for announcement by listed companies is easy to use and does not require any technical development or cost on the part of companies. The solution also assists the user to validate and populate as much information as possible pre-lodgement to ensure consistent and compliant announcements. While solutions employed by other market infrastructures include XBRL tagging of the announcement by the company, XBRL is not widely used in Australia and the uptake has been very low for financial reporting (being currently non-mandatory); however, ASX has built in the capability to accept the XBRL format in the future.

#### *Storage and transformation of data*

The requirement was for the straight-through transformation of data (delivered in the XML format) into corporate actions records in ASX's own database, and the subsequent transformation into various existing file formats and new formats for external dissemination. Technically, the acceptance and transformation of the announcement data crossed many systems at ASX, requiring a coordinated and thoughtful solution design. The

project would not have been possible without a significant investment in technology by ASX. At the same time, ASX has managed the replacement of its central database for issuer, security and corporate event information, and the introduction of an enterprise service bus and new data warehouse. This technical work has provided the ability to introduce far more flexibility into the management and breadth of data as well as enabling introduction of the concept of near-real-time processing in addition to the existing batch processes. This work also included a review of all business processes and reengineering where possible.

#### *Phased approach*

While it would have been ideal to introduce a solution that covered all corporate actions, the size of the task necessitated a phased approach. Those corporate actions representing the highest volume (about two-thirds of corporate actions notifications published by ASX), which were largely mandatory, were tackled first. This group included dividends, interest payments, return of capital (cash), stock split and reverse stock split. This phase will go live in September 2014.

#### *New standardised format of corporate actions notifications*

Another requirement was for the introduction of a new standardised format for corporate actions notifications by ASX. As previously mentioned, ASX currently provides corporate actions information in a number of file proprietary formats (eg PDF, hyper-text mark-up language (HTML) and comma-separated values (CSV)) available at batched intervals. The ability to process the data straight through all the way from the company to the output introduced the possibility of a near-real-time notification service. To assist ASX customers to achieve their



own STP (perhaps alongside any other market/global solution) and allow time to process their requirements, ASX considered the adoption of international standards for this new format. ASX has an existing ISO 15022 corporate actions notification service for debt instrument securities via SWIFT; however, to date, it has not provided the same service for retail equities. At the time of finalising the solution, the move to adopt ISO 20022 for corporate actions notifications was gaining momentum globally and ASX's preference was to go to that standard. While ISO 15022 is the current standard used by stakeholders for corporate actions messaging in Australia, ASX considered it undesirable either just to introduce an ISO 15022 service or maintain two sets of standards and then encourage migration to ISO 20022 over time. ASX also recognised the fact that service organisations could assist subscribers to transform the new ISO 20022 format to other formats used internally by those subscribers. The XML format of ISO 20022 allowed easier internal integration (mapping) and output not just over SWIFT Net, but also via ASX's own communication channel, ASX Net. ISO 20022 also allows the capture of more data in a structured format, for example, by utilising extensions rather than commentary blocks as used in ISO 15022. This was a key decision given the working group's preference for more information specific to Australian examples.

ASX was assisted in its solution by representatives from the local branch of SWIFT and through the use of regional SWIFT consultants. The SWIFT consultants ensured that ASX adopted best practice in its guidelines and considered an implementation that co-existed with existing SWIFT services. A review of ASX's existing SWIFT capability and technology revealed the opportunity to

adopt two new SWIFT solutions to achieve a streamlined process for message definition and output. ASX has subscribed to SWIFT MyStandards as a means to define usage guidelines and publish the guidelines for use by customers and in ASX's own technical implementation. The ISO 20022 guideline versions adopted are backwards compatible to the ISO 15022 format where possible. ASX also adopted SWIFT's integration platform, IPLA, and a custom module to generate ISO 20022 standard SWIFT for consumption by market data subscribers through a dedicated SWIFT channel.

ASX has conducted a number of pilot test periods with both companies and consumers of the new standardised format files. The first phase of the project is due for implementation in September 2014.

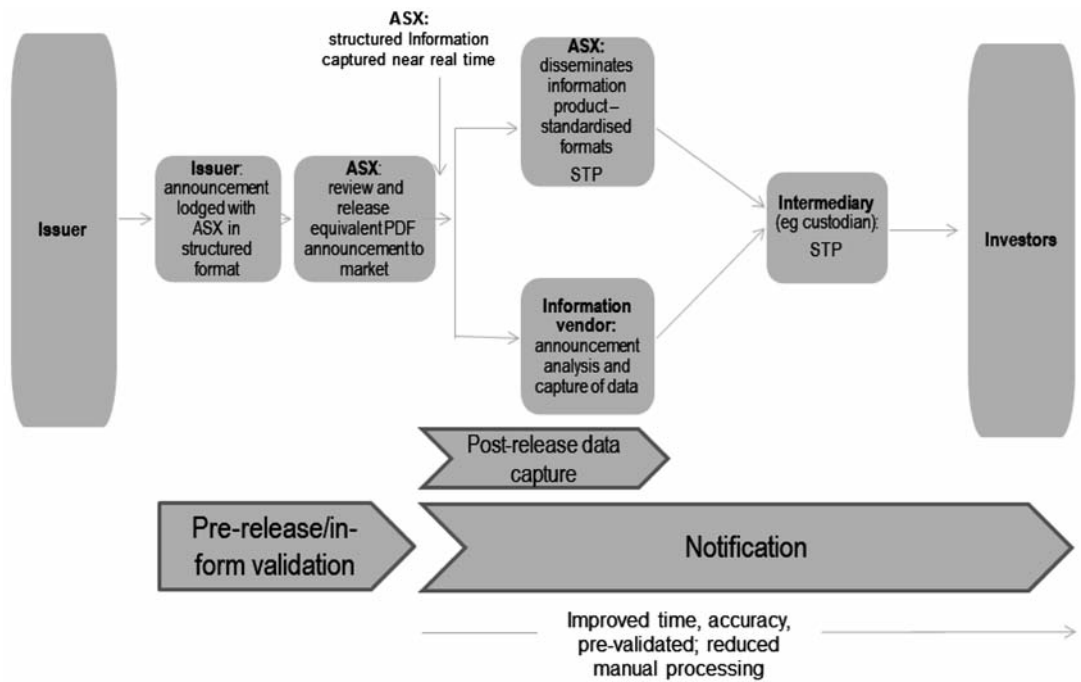
## THE BENEFITS

'The straight through processing of corporate actions in an international standard like ISO 20022 adds value to all financial market users: issuers get a better process and better results in terms of capital raisings, custodians get richer data faster and in standard format, which takes costs out of their business, and end investors get the right information at the right time, enabling them to make better investment decisions.'<sup>2</sup>

Compared to current arrangements, the new process is more streamlined and timely, as demonstrated in Figure 4. For companies, the new process:

- provides certainty in the announcement process, including pre-lodging compliance checks and work flow;
- reduces the number of post-announcement queries; and
- improves the quality and timeliness of information delivery to investors.

Figure 4 ASX's streamlined process enabling straight-through processing (STP)



The company is reinforced as the ‘source of truth’ in the process, as facilitated by ASX and the new process. To achieve these benefits, listed companies have become comfortable with the notion of a mandatory process.

For an asset servicing organisation, such as a custodian, the benefits are numerous. The ASX service is reinforced as a trusted source of corporate actions information that effectively constitutes the ‘golden copy’. Data are available in near-real time, enabling greater capacity to meet deadlines for service-level agreements (SLAs) and improve customer service. With a standardised format, the service allows for an STP capability and reduces operational risks, errors and costs. It is known that fund managers are pushing custodians for better data services and improved timeliness of delivery. For custodians, this means that they should all be competitive on the basics around notification of the content of a corporate action. The ASX service can

help customers, like custodians, to meet the basics with little effort and then provide value-added services.

For all consumers of information, including investors, there is a consistency in the breadth and format of the data. Investors are able to receive information faster, allowing them more time to make good decisions. For a fund manager, it can help to optimise the flow of information and support efficient collateral and risk management. The new process for listed companies is mandated via the ASX Listing Rules, ensuring 100 per cent STP for the prescribed corporate actions.

For information providers and software vendors, the benefits of having data from the source are also numerous and deliver business process automation that replaces the manual data entry currently required in many corporate actions data collection and management environments. The access to data in standardised formats direct from the source delivers product

efficiencies to these vendors, allowing them not only to enhance their terminal and feed-based products, but also adding to the ability of their products and application programming interfaces (APIs) to be seamlessly integrated into the corporate event processing platforms of end-user firms.

ASX itself also will benefit from these changes through more efficient operations, reduction in errors and by being able to redeploy experienced corporate actions analysts — who would otherwise spend time on manual data entry — to more complex matters. The technical solution could be adopted for other initiatives with similar objectives. ASX's market information offering is greatly enhanced and the components of the solution could be reused for other initiatives. By adopting international standards, ASX has increased

its global reach and customers — who may have used alternative data sources in the past for Australian announcements — now will see ASX as the key source of data.

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