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Corporate Actions — Or, how do investors find out about your corporate events?

By David Hands

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Corporate Actions —

Or, how do investors find out about your corporate events?

BY DAVID HANDS

Ever wonder what happens when you issue a press release or file a prospectus covering a market-moving event in the life of your company? Once that information gets out there, we all know that many investors read your original documents on the Securities and Exchange Commission's EDGAR database, or pull it off the wire services. But did you know that most investors, traders and analysts rely on a feed of corporate actions data to process your company's events? That feed of information is based on your original document, but information is extracted, re-keyed and put into a very different format before it is used by the financial systems of your most critical stakeholders.

What is the Corporate Actions Announcement Process?

Investors and analysts typically purchase the corporate actions feed from a data intermediary such as Bloomberg, Thomson Reuters or IDC — or even from your stock exchange. Each of these intermediaries grabs your release or prospectus and manually extracts the pertinent information about the merger, tender, dividend or other company event, translates the content and feeds it into a database. The operative word here is “translates.”

What you originally sent out must be interpreted by an army of individuals to fit a data standard that they use for distribution and analysis. You may recall getting a call from your stock exchange asking for further clarification of a particular activity as it turns your event into a corporate action data point.

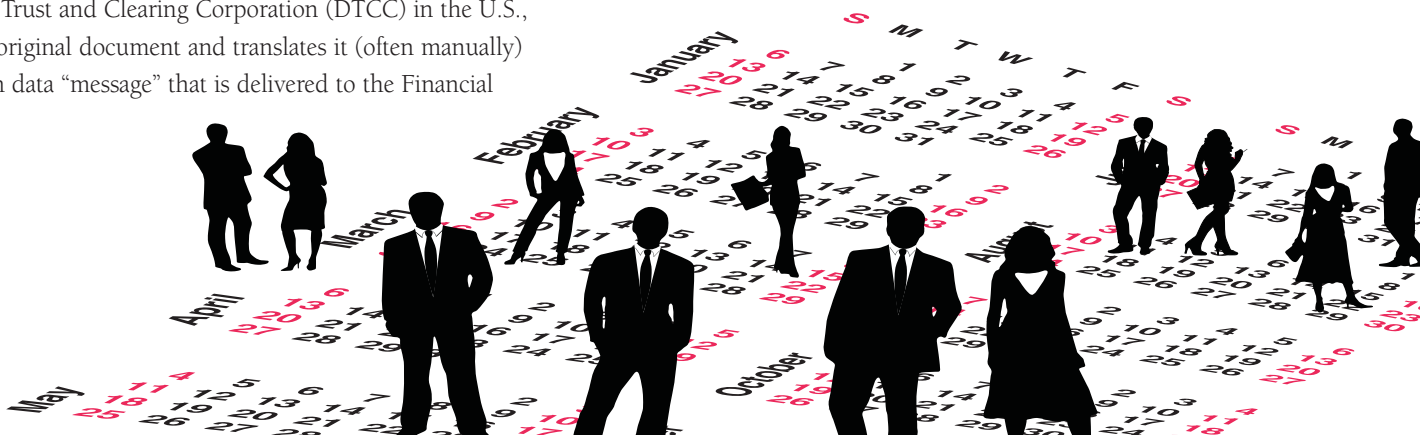
At the same time, your securities depository, like The Depository Trust and Clearing Corporation (DTCC) in the U.S., takes your original document and translates it (often manually) into its own data “message” that is delivered to the Financial

Services Industry's asset servicing community, such as custodians and broker/dealers, advising security holders of an event that will impact their account. Custodians and broker/dealers further develop their own version of the corporate action announcement by *again* taking data from your source document to use as a check against the depository interpretation as they in turn deliver the information to their asset manager clients such mutual and pension funds.

It is evident that your corporate action information undergoes a lot of “translation” as it moves along this chain to the shareholder. This decades-old process can be inefficient, time-consuming and costly because you, the issuer, aren't involved in how your own information is portrayed. The process can potentially result in misinterpretations, inaccuracies or delayed notifications that ultimately could affect your company's stock price.

The Standards are Not All the Same

Why? Because the creators of the original source document (public companies issuing releases or prospectuses) do not follow the same data standards used by the clearinghouses, custodians and data intermediaries. News releases and prospectuses contain plenty of highly valuable information — but how that information is portrayed can vary dramatically. There is no standard format. And because data is created through a manual process, the risk exposure to the firms involved in processing has been estimated by Oxera, an independent economic consultancy based in Europe, at \$10 billion industry-wide.



To provide an idea of how many messages are being transmitted within the Financial Services Industry, consider that SWIFT, the member-owned cooperative providing secure messaging services to the financial services industry, transferred nearly 75 million electronic corporate action notification messages over its network in 2008. Many millions more are delivered through other networks, including DTCC's.

How could standards improve the corporate actions announcement process?

Over the past 10 years, the depositories and asset servicers have collaborated worldwide to develop standards that support the millions of messages collectively sent each day. Under the authority of the International Organization for Standardization (ISO), SWIFT Standards has centralized this work under a global standard that defines the data elements and structure required for a corporate action announcement.

The Global Standard — the Corporate Actions Working Group

The global standard sets clear definitions for events like mergers, acquisitions or stock splits. An example of specific items defined for a merger would be expiration date (where a choice of entitlement is given), cash rate and pro-rata details.

HOW CAN YOU FIND OUT MORE?

Few investor relations officers are well-versed in corporate actions, although the data and the processing can have a big impact on their world.

The corporate actions working group will be:

- Publishing a white paper to layout the business case for corporate actions data and technology standards by late May 2009
- XBRL US and Securities Operation Forum will host a one-day conference on Issuer-Investor Communications on May 28, 2009; Jeff Morgan, President and CEO, NIRI will present during a keynote panel

However, the voice of the issuer is missing. In an effort to bring the issuer and asset servicing worlds together, DTCC and SWIFT have established a corporate actions working group that unites all parties in the corporate action announcement chain. Involvement by public companies could reduce the risk of corporate actions data, both for processors and for issuers.

Why now? What has changed to make this a greater reality than ever before? Fortunately, another technology standard has recently come to the forefront: one that enables the effective translation and electronic delivery of standard data found in paper documents, namely XBRL.

XBRL offers the potential to transform the announcement process. If issuers followed the same standard everyone else uses for corporate actions and submits that information in XBRL format, the processors, distributors and ultimately analysts would understand the information in exactly the same way — there would be no need to interpret the event. The challenge here is (1) to demonstrate to the issuer how using the standard already in use by their stakeholders will give significantly greater clarity to your company-driven events, and (2) to submit the information in XBRL format. XBRL has already been mandated by the SEC for public company periodic reports so applying it to corporate actions documents would not require significant learning or effort.

DTCC and SWIFT have started the process of bringing issuers into the fold through the corporate actions working group that includes the SEC, Stock Transfer Association, financial publishers, information agents, International ISO, the CFA Institute, SIFMA (Securities Industry and Financial Markets Association) Asset Manager Forum and Corporate Action Division, NYSE EuroNext, and ISITC (International Securities



David Hands

Association for Institutional Trade Communications), among others. The issuer's viewpoint is represented in the working group through the Society of Corporate Secretaries and Governance Professionals and NIRI.

Once issuers are on board with using the standard, the act of conveying that information through a widely-used technology standard will ensure greater transparency and risk reduction, both for creators and processors of corporate actions data. The corporate actions working group is closely engaged with XBRL US, the nonprofit consortium for XML reporting, which developed the collection of terms (taxonomy) for U.S. GAAP reporting that is being used by public companies in response to the SEC's recent mandate of XBRL for public company reporting. XBRL US, DTCC and SWIFT are collaborating on the development of a collection of terms to define corporate actions data.

What is the Role for IR in the Corporate Actions Process?

IROs and corporate secretaries serve a key role in ensuring that the company is in proper compliance and the financial services industry gets an accurate and timely message about corporate activities. Corporate actions data has a significant impact on both areas. Ensuring that a global *data* standard is used by creators of information as well as processors, distributors and users of information, and delivering it using a widely accepted *technology* standard would significantly benefit the connection between public companies and their key audiences. IRU

David Hands is director, product development at The Depository Trust & Clearing Corporation. He has worked with Morgan Stanley—London, and was VP at Deutsche Bank. He works with a team of 60 staff in New York, London and Shanghai.