



US Corporate Actions
standardization
position paper

US Corporate Actions Working Group

2023



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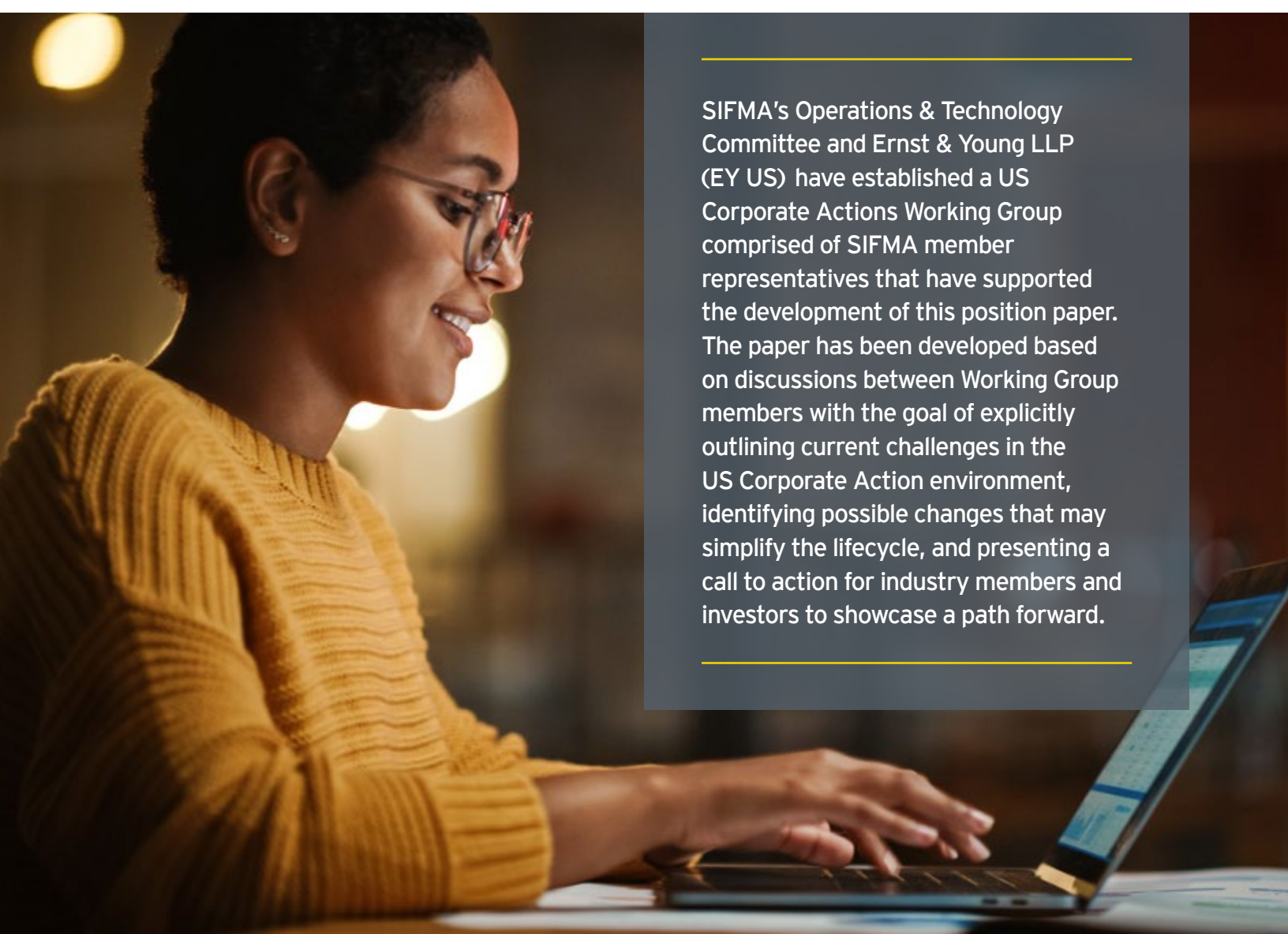
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Executive summary

Corporate Action announcements and event processing in the US financial markets have not changed significantly over the past decade despite increased technological advancement and additional industry regulation that have led to unnecessary costs and risks to organizations and investors.

This paper discusses the current state of Corporate Actions in the US, the present challenges in the current announcement process and objectives for what a modern Corporate Action environment could look like. Additionally, this paper provides a case study that highlights how a foreign securities exchange transformed its Corporate Action process and an example use case where potential risk to investors could be mitigated through the standardization of Corporate Action announcements and processing. Finally, this paper outlines the current regulatory structure and culminates in a call to action for industry organizations.

A woman with dark hair, wearing glasses and a yellow sweater, is shown in profile, smiling as she works on a laptop. The background is softly blurred with warm, bokeh lights.

SIFMA's Operations & Technology Committee and Ernst & Young LLP (EY US) have established a US Corporate Actions Working Group comprised of SIFMA member representatives that have supported the development of this position paper. The paper has been developed based on discussions between Working Group members with the goal of explicitly outlining current challenges in the US Corporate Action environment, identifying possible changes that may simplify the lifecycle, and presenting a call to action for industry members and investors to showcase a path forward.

Introduction

Corporate Actions are an event or activity taken by a publicly traded company that may have a material impact on its securities and shareholder value.¹ Corporate Actions include the issuance of dividends, a stock split or a corporate reorganization with the issuance of additional (or new) stock, among many others. Over the last few decades, Corporate Actions have played a large role in shaping the global financial industry, serving as a mechanism for companies to grow, restructure debt and distribute profits to investors. These Corporate Actions and their public announcements can significantly impact the valuation of a security, ultimately affecting the returns or decisions for investors. While the industry recognizes many types of events, they can generally be grouped into three categories: voluntary, mandatory and mandatory with choice. As the global financial industry has evolved in complexity, it is critical to investors that the dissemination of announcements to the market is accurate, timely and trustworthy, specifically as the industry is beginning to accelerate the settlement cycle to T+1, reducing post-trade processing time for broker-dealers, custodians, banks and other financial services organizations. Retail investors may also be unaware of the Corporate Actions impacting securities that they own and how they are currently being processed

as there is limited standardization in how Corporate Actions are structured, announced and processed in the marketplace.

In May 2022 a survey performed by Gallup showed that 58% of American adults report having some money invested in the stock market.² Over 100 million Americans own securities and therefore require processing and/or notice of Corporate Actions. These shareholders are serviced by broker-dealers, banks or other financial services organizations that are responsible for capturing, processing and notifying their clients of Corporate Actions that affect their holdings. Companies that have issued securities, or “issuers,” are the creator of the Corporate Actions, and issuers have a significant interest in ensuring their Corporate Actions are completed accurately and in a timely manner. As such, it is critical to issuers, broker-dealers, transfer agents and other organizations to be accurate, timely and transparent in the public dissemination of information and in event processing to give investors access to information affecting their securities.

¹“Understand corporate actions & when to respond,” *The Vanguard Group*, <https://investor.vanguard.com/investor-resources-education/online-trading/corporate-actions>, 2022.

²What Percentage of Americans Owns Stock? *Gallup*, <https://news.gallup.com/poll/266807/percentage-americans-owns-stock.aspx>, 2022.



Number of American adults that report having money invested in the stock market.



Current landscape of Corporate Actions

The current regulatory landscape of Corporate Actions within the US financial markets doesn't mandate the standardization and dissemination of corporate announcements and its data elements, leaving investors with a fragmented and disparate perspective on Corporate Actions. When a Corporate Action is approved by an issuer's board of directors, the company often utilizes press releases, regulatory filings or public websites to communicate events to investors and market participants. However, these releases do not follow any uniform structure and often result in inconsistent timelines, formats and mediums for public dissemination. This is in part due to a patchwork of rules and regulations enacted and enforced by numerous entities. In addition, some important investor information and data can only be found in original offering documents or prospectus offerings, which are often over 100 pages long and contain complex language not easily understood by all readers. Additionally, these documents often do not contain structured data or data tables, resulting in manual interpretation of free text. Furthermore, neither the offering documents nor prospectus are written for consumption by a retail investor or layperson. This fragmented and complex method of processing and disseminating Corporate Action information significantly impacts both investors and the issuers who rely on market participants and financial services organizations to distribute and process the information to the broader market. This process can add risk to financial services organizations that independently interpret complex offering documents, which can lead to delays, inhibit downstream communication and increase operational costs due to manual processing. Globally, it is estimated that 46% of event data is published and received manually, driving unnecessary risk and expense to organizations that process Corporate Action events for their clients and downstream organizations.³ It is critical for broker-dealers, data vendors, depositories and financial services organizations to process information accurately and take steps to reduce the risk of erroneous processing. Lastly, with the upcoming transition to a T+1 settlement cycle, there may be increased investor risk as financial services organizations will have even less time to perform vital reconciliation, calculation and issue remediation activities.

³ "Corporate Actions 2021: Key Survey Findings," *The Value Exchange*, 2021.



46%

Estimated amount of global event data published and received manually, driving unnecessary risk and expense to organizations.

Fragmented Corporate Action announcements

Corporate Actions are a fundamental aspect of the capital markets and integral to raising capital, sharing profits and issuing debt. All Corporate Actions performed by public companies, whether they are dividends, partial calls or rights subscriptions, require communication from the issuer to the market and investors. Investors rely on straightforward and understandable event details to evaluate the impacts of Corporate Actions and possibly make a timely decision to participate in the event. Financial services organizations processing Corporate Actions on behalf of investors also require accurate, timely, and transparent event details from the issuer in order to service the event. Despite the importance, frequency and high volume of Corporate Actions in the US, there is no standardized method for the dissemination of the important, actionable and material information to investors. Issuers disseminating Corporate Action information through a variety of different channels require market participants to obtain and interpret physical offering documents on an individual basis, which can lead to the distribution of conflicting or incorrect information and ultimately disadvantage investors. Increasing the complexity of Corporate Actions in the US could have material impacts to investors as well.

Retail investors that do receive timely and accurate Corporate Action announcements may not necessarily understand them. This potential for misunderstood

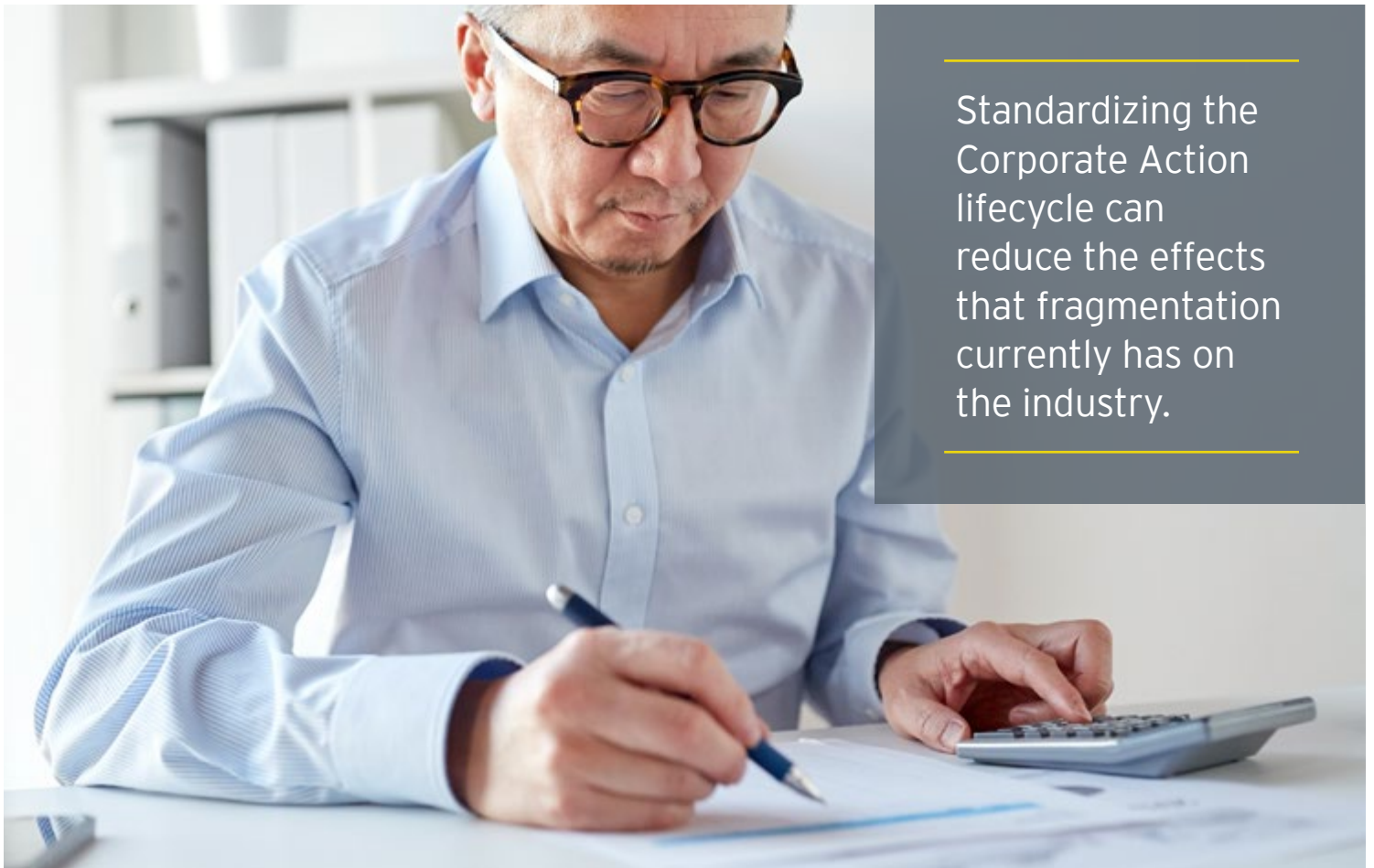
Corporate Action events may have an impact on event participation and the value of the underlying security. In addition to retail investors, there are other market participants impacted by the current state of Corporate Actions. A global industry survey performed by The Value Exchange concluded that on average, it costs financial services firms more to source the data of a Corporate Action event than it does to process that information. This metric in particular highlights the complexity of the dissemination process. While some announcements may follow similar formatting rules and include relevant information on how such events will be processed, others may leave room for independent interpretation by market participants. Client-servicing organizations such as broker-dealers, and the data vendors that support them, may interpret a Corporate Action announcement directly from an issuer and manually pull out the important details and repackage those details to be sent to investors downstream. Eliminating interpretative processing steps and simplifying the lifecycle of a Corporate Action will benefit the large-scale institutions by reducing manual processing and the retail investor by reducing unnecessary complexity. As the US market continues to modernize and investors demand more timely information about their investments, it is important that regulations, technologies and processes evolve in tandem to meet the demands of clients.

The Value Exchange concluded that on average, it costs financial services firms more to source the data of a Corporate Action event than it does to process that information. This metric in particular highlights the inefficiency of the dissemination process.

Corporate Action standardization objective

Fundamentally, the current state of Corporate Actions lacks standardization. Large financial services organizations and their data vendors that perform large-scale processing of Corporate Action data would benefit by standardizing many of the manual processes that are currently performed by numerous entities. Standardizing the Corporate Action lifecycle can reduce the effects that fragmentation currently has on the industry, especially if there is standardization on both ends of this lifecycle. The input of the lifecycle includes the required information, timing, structure/format and overall content of the message, and the output is the standardization of the dissemination from issuers to market participants with the information packaged as a golden source. Leveraging technologies

such as ISO 20022, XBRL or bespoke “smart forms” can support the industry in transitioning all Corporate Action event data into standardized templates, where data can be proactively validated, controlled and structured. Having a digitized, structured, predictable and even automated method of communicating these events in a centralized manner from the issuer will allow market participants such as broker-dealers, depositories, exchanges, regulators and investors to benefit by reducing the risk associated with manually interpreting non-standardized Corporate Action documents. In addition, a standardized and centralized Corporate Action lifecycle will keep investors informed, allow intermediaries to act on timely information and reduce unnecessary risk across the market.



Standardizing the Corporate Action lifecycle can reduce the effects that fragmentation currently has on the industry.



CASE STUDY

Australian Securities Exchange

In 2014, the Australian Securities Exchange (ASX) began a seven-year program to transform its approach to Corporate Actions. ASX set out to improve compliance with their listing rules as well as improve workflows for themselves and other market participants. ASX's vision to achieving these objectives was to transition from manual processes to a straight-through-processing (STP) solution, a technical principle where individual systems or platforms are connected to automate processing and eliminate manual intervention. The foundation of the ASX transformation is built upon "smart forms," a customizable digital document that supports pre-population of data, automatic data validation, setting data limits, as well as other automated processes and controls. By presenting validated, uniform and structured data, ASX improves the disclosure of Corporate Actions from issuers that make these announcements to the market and its participants that view and interpret these notices, including transfer agents, financial services organizations, and institutional and retail investors. These smart forms are customizable by the exchange for different types of Corporate Actions, providing issuers with flexibility

while maintaining STP throughout the lifecycle of the Corporate Action. Additionally, these smart forms enable automatic messaging via the ISO 20022 format. One of the most significant benefits to this STP approach is the linking of these smart forms to existing exchange products/records, creating a streamlined procedure of processing and publishing these Corporate Action notices, all via STP. Many of the benefits brought forth by this program such as increased compliance with rules and regulations, and increased market transparency would be beneficial in the US as well. Furthermore, in 2021, ASX completed phase 2 of its transformation by releasing additional smart forms to account for complicated Corporate Actions that affect capital changes and capital issues, further expanding its STP methodology.⁴ The centralization and standardization of Corporate Actions announcements were a success largely due to the support and active participation from a significant portion of the market and were directly supported by ASX's issuers.

⁴ "Corporate Actions STP," ASX, <https://www2.asx.com.au/markets/clearing-and-settlement-services/asx-settlement/corporate-actions-stp#:~:text=Corporate%20actions%20include%20events%20such,including%20for%20their%20own%20customers,2022.>

USE CASE

US issuer debt tender offer

The following use case is an example of how complex Corporate Action announcements could impact investors, and how standardization and centralization of a timely announcement would benefit market participants. US issuers often publicly announce debt tender offers, which is a Corporate Action that a company may undertake to buy back and restructure debt. This is a common event performed when a company's debt securities are trading below face value on the open market and often introduce complexities for the issuer, deal managers and investors with extensive details outlined in the announcement's terms and conditions. Upon announcement, shareholders of the specified debt securities have a limited period of time to accept the offer and thereby tender the notes. Following the announcement, issuers are allowed to make


amendments to the terms and conditions of the event, which can often happen as markets shift and the price of the security changes. In these situations, the issuer can choose to amend the event with new terms and conditions but the deadline can remain the same as the initial announcement providing the investor less time to interpret and act upon the new information. The risk that the investor potentially acts based on stale initial terms and/or a compressed timeline to participate in the event highlighted in this use case could be mitigated through a centralized and standardized dissemination of event terms and conditions. By enhancing the announcement process, market participants can benefit from a more timely and accurate flow of event information and any subsequent amendments.



Overview of current governance and regulatory landscape

The US capital markets are the largest, deepest and most liquid markets in the world, largely due to high investor confidence supported by comprehensive regulations that govern many of the processes and organizations that facilitate those processes. However, the rules and regulations that govern the lifecycle and processing of Corporate Actions are limited as they relate to the dissemination of Corporate Actions. Currently, federal regulators, the Financial Industry Regulatory Authority (FINRA) and the listing exchanges each play a unique role in enacting rules and regulations governing the lifecycle of Corporate

Actions. Although there are rules governing Corporate Actions, there still remains a lack of uniformity in how Corporate Actions are disseminated to the marketplace both from the standardization of the data as well as the centralization of the information, in part because the New York Stock Exchange (NYSE) and the Nasdaq are limited to governing their issuers, with no authority for companies in the over-the-counter (OTC) market or differing exchanges. The following outlines the current rules and the bodies governing the processing of Corporate Actions.



Although there are rules governing Corporate Actions, there still remains a lack of uniformity in how Corporate Actions are disseminated.

- ▶ **Federal Regulations** include (1) guidance for processing of company-related actions (FINRA rule 6490) found in section 17 of the Code of Federal Regulations (17 CFR § 240.10b-17) which regulates the announcement of record dates to protect the market and its investors from fraudulent Corporate Actions, and (2) Regulation FD (Fair Disclosure), Part 243 of Chapter II of Title 17 of the Code of Federal Regulations which was enacted in 2000 and governs fair and timely distribution of material information to investors. Specifically, Regulation FD mandates when issuers must notify the public about Corporate Actions announcements. The timing of the announcement depends on whether the disclosure is intentional or non-intentional. For intentional disclosures, issuers must make public announcements to both insiders and the marketplace simultaneously. If the disclosure is non-intentional, issuers must publicly disclose Corporate Action announcements promptly. This helps create a level playing field for investors. While the Code of Federal Regulations does have some stipulations regulating Corporate Action events, most of these rules were written to protect the market and their investors from fraud rather than to structure Corporate Action events in a standardized way and disseminated in a manner that creates a level playing field for investors.⁵
- ▶ **FINRA** governs the OTC market and associated Corporate Action events to prevent fraud and maintain investor confidence. FINRA rule 6490 titled “Processing of Company-Related Actions” outlines and governs the responsibility of an issuer when submitting Corporate Action events to FINRA for processing. The rule specifically outlines the advanced notification, supporting documentation and the late fees associated. As the dedicated possessing agent for Corporate Actions within the OTC market, FINRA supports market transparency

and ensuring that investors are aware of Corporate Actions that may impact their holdings. Lastly, FINRA does not approve or disapprove the events, simply processing as directed by the issuer.⁶

- ▶ **NYSE** has established internal policies, in addition to requirements set forth within their Listed Company Manual, that govern the notification and disclosure of corporate action events to mitigate risk for their issuers and investors. The NYSE also requires that issuers announce Corporate Actions through a Regulation-FD compliant method and for complex or bespoke Corporate Actions, NYSE works directly with issuers and relevant third parties such as the Depository Trust & Clearing Corporation (DTCC) and transfer agents prior to making announcements to the broader market to ensure timely and fair access to Corporate Action information for NYSE listed issuers.
- ▶ **Nasdaq** sets requirements within its Listing Rules and also publishes a Continued Listing Guide designed to be a practical guide for listed companies to find relevant information on listing standards, disclosure notification requirements and fees.⁷ The guide includes the relevant notification forms and subsequent due dates for relevant Corporate Actions performed by Nasdaq’s listed companies. The guide is inclusive of 17 Corporate Actions, such as listing of additional shares, distributions and share issuance from treasury. Most Corporate Actions are accompanied by a form that includes a standardized data format for providing the relevant notification to the public, which is already a step toward standardizing Corporate Actions on a wider scale.

⁵ “17 CFR Parts 240, 243 and 249,” *Securities and Exchange Commission*, <https://www.law.cornell.edu/cfr/text/17/chapter-II>.

⁶ “FINRA Rules Part 6490,” *Financial Industry Regulatory Authority*, <https://www.finra.org/rules-guidance/rulebooks/finra-rules/6490>, 2022.

⁷ “Listing Center,” *Nasdaq*, <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules/Nasdaq%205100%20Series>, 2022.



Benefits of standardization

► **Transitioning to T+1** will require increased automation and replacement of manual processes as the time frame post-trade has been reduced by half. Standardizing Corporate Action announcements and events is long overdue, which is now all the more critical in the upcoming T+1 environment. Aside from the significant resources that are spent sorting through and sourcing corporate action data, the industry also spends significant resources performing important reconciliation and entitlement calculations to ensure that Corporate Actions are properly processed and accounted for. These activities become even more crucial as trading continues around event deadlines and can pose additional risk to investors as financial services organizations are sourcing and consuming event data, communicating with investors, and ultimately servicing the event by its deadline. Replacing manual processes that support and facilitate Corporate Action announcements and event processing with structured data and STP can support the industry transition to a T+1 settlement cycle. Reducing the time to settlement from the current two business days post-trade date to one day will significantly impact the industry overall and require organizations to enhance their processes to account for a 50% decrease in time post-trade. As banks, broker-dealers, institutional investors, depositories and other large organizations begin to implement transformative programs to prepare for an accelerated settlement cycle, investments made now to improve Corporate Action processing and the dissemination of events to investors will be crucial in a faster-paced environment.

► **Risk would be reduced** for investors and broker-dealers by leveraging standardized input (format) and output (golden source announcement) of Corporate Action announcements. Broker-dealers are exposed to financial and reputational risk should an erroneous Corporate Action announcement be processed, impacting clients and the broader market. In addition, retail investors are among the most likely to be negatively impacted by an unpredictable and disorganized Corporate Action event. Retail investors could be disproportionately harmed by untimely and complex Corporate Actions and non-standardized announcements due to a lack of resources and information. Market professionals or those who have access to information before the broader market receives it could profit off the public's lack of awareness or comprehension if Corporate Action information is not widely disseminated. Issuers notifying investors through a wide range of media at non-uniform times can leave

investors at a disadvantage. Additionally, regardless of volume, a standardized data set with comprehensive information can allow custodians and depositories to process events more efficiently and with a higher degree of accuracy. The standardization of high-volume Corporate Action events such as dividends could bring large-scale benefits to institutions and market utilities such as the DTCC. Rather than having to transpose or interpret a prospectus or other regulatory filing, custodians and depositories would be able to leverage a golden source directly from the issuer.

► **Processing improvements** can transform how Corporate Actions are processed, which can reduce risk and cost for market participants. A 2010 survey organized by DTCC and SWIFT estimated that a \$400 million reduction in operating costs for intermediary organizations and investment managers could be realized by implementing the "eXtensible Business Reporting Language," (XBRL) a form of data standardization to tag specific data within a Corporate Action disclosure.⁸ Due to the survey results being over a decade old, it is likely the unrealized cost reduction has increased. This example highlights that Corporate Action standards can help reduce operating costs, increase processing efficiency and reduce the risk of operational losses. In addition, the XBRL tagging of specific data can improve the notification process to downstream parties such as shareholders, improving timely access to information that is already required for mutual funds. The current high operating costs driven by a distributed and non-uniform system can be reduced by centrally supporting the development of a data-driven and golden source system that captures and communicates event data directly from the issuer to the exchanges, broker-dealers and investors. Investors are also subject to significant opportunity costs when impacted by delayed or incorrect Corporate Action announcements. These impacts can include missing share price movement or the opportunity to benefit from a rights subscription or tender offer. Furthermore, due to the fragmented announcement process, expecting individual investors to monitor various websites and messaging systems creates operational deficiencies by increasing the opportunity for error and misinterpretation. Lastly, the implementation of a platform/solution as a golden source benefits investors as well as the rest of the industry through clear, reliable and predictable communication.

⁸ "A Business Case to Improve Corporate Actions Communications," XBRL, <https://xbrl.us/wp-content/uploads/2010/12/20100630CorpActionsBusinessCase.pdf>



A potentially effective method for controlling the content of announcement notices is leveraging existing authority that major exchanges already have.

Industry call to action

Improvements made in the industry today to modernize and standardize Corporate Action event processing and dissemination will bring longstanding benefits to large organizations, individual investors and the broader market. As demonstrated in the multiyear Australian Securities Exchange program, transforming this critical segment of the US capital markets is a significant task and will require support and buy-in from stakeholders at each stage of the Corporate Action lifecycle. Issuers are a key stakeholder in Corporate Actions processing and have significant interest in ensuring that Corporate Actions are processed and disseminated without issue. Developing and solutioning these improvements with involvement and ownership from issuers will benefit the industry as a whole.

A potentially effective method for controlling the content of announcement notices is to leverage the existing authority that major exchanges already have over their listed companies. Looking to the ASX method as a guideline, ASX had success leveraging smart forms to standardize the information that was being disseminated by the issuer at the beginning of the lifecycle of a Corporate Action.⁹ Creating a guideline or template with data validation and data restrictions via smart forms enabled the exchange to proactively control the data that is entered into the system, allowing for more efficient processing of structured data. Utilizing this form of validation/control on issuer data entry prevents the simple yet common errors that are associated with manual data entry (e.g., typos, invalid characters). Introducing these changes in separate phases over an agreed-upon timeline could ease the burden on large organizations to change their technology, processing and capabilities to accommodate the changes required by investors. Lastly, FINRA as the Corporate Action processing agent for OTC securities could leverage similar templates, processes and controls to benefit the large number of unlisted issuers and all of their investors.

Transforming the Corporate Action lifecycle may require additional regulations governing the timing of notifications, submissions, disclosures and supporting activities. It is critical that the industry voices concerns and comments, and upholds and supports a defined timeline for notifications of these events. Mandating disclosure of Corporate Action data and event announcements will not be effective in supporting investors if issuers are not bound to clearly defined guidelines regarding disclosures in a uniform, standardized and centralized framework. We encourage industry participants, including regulators, to develop guidelines to modernize the Corporate Action lifecycle for the benefit of market participants and investor protection.

⁹ "Corporate Actions STP," ASX, <https://www2.asx.com.au/markets/clearing-and-settlement-services/asx-settlement/corporate-actions-stp#:~:text=Corporate%20actions%20include%20events%20such,includin%20for%20their%20own%20customers,2022>.

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To learn more about Corporate Actions in the US and how the current environment might affect your organization and how we can help, please contact one of our SIFMA or EY US subject-matter leads:



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