THE BUSINESS CASE FOR CORPORATE ACTIONS STANDARDS:

BLACK & WHITE OR A HUNDRED SHADES OF GREY?

October 2012
The market hates uncertainty. Uncertainty creates a fear of the unknown and can paralyze a market. Uncertainty leads to the worst of all business afflictions: indecision.

With an uncertain future and new challenges to core business models, this industry can’t tolerate indecision, inefficiency, or apathy. This isn’t the time. While no one can control the direction of the market, it is essential the industry collaborates effectively to manage operational aspects of the business that should be within our control. Setting standards on transaction processing and how to communicate the status of financial events between banks and their customers is firmly within our control.

For 15 years SWIFT, ISO working groups, and industry participants have been working to define and implement a standard messaging protocol called ISO 15022. When it was born, ISO 15022 represented an opportunity to automate and create greater efficiency in the processing of notifications, entitlements, and elections. Today, ISO 15022 has achieved the designation as the undisputed standard for corporate actions and has been adopted globally by banks, broker dealers, investment managers, and market infrastructure.

Concurrent with these efforts ISO 20022, a second ISO standard, was being developed targeting the same business processes and information. It represented a technical evolution in corporate actions standards and held the promise of being a foundation for even greater automation and sophistication.

However, as the old cliché goes, the road to hell is paved with good intentions. Yes, ISO 20022 may represent an upgrade over ISO 15022 but the initiative has thrown the future state of corporate actions standards into a troubling state of uncertainty. The lack of consensus on how ISO 20022 will be adopted is invariably creating a state of fragmentation, ironically from the very process designed to create harmonization. The situation puts us at a critical crossroads and requires an escalation on the debate regarding the potential “coexistence” of two standards.

It is with these issues in mind that we engaged leaders in the corporate actions industry to offer their perspective on coexistence between ISO 15022 and ISO 20022. This paper represents a collection of their thought leadership and opinions.

From the securities services perspective, Brown Brothers Harriman has earned a reputation for innovation in SWIFT messaging services and a leader in the adoption of financial messaging standards. Also sharing their views is DTCC, the world’s largest securities depository and early adopter of ISO 20022.

Information Mosaic and XSP, two of the premier software providers of corporate actions workflow solutions and Fidelity ActionsXchange, a leading supplier of data aggregation, event comparison, and communication services provide their insight on the adoption of ISO 20022 from the vendor perspective. Finally, the world’s largest provider of financial information, Thomson Reuters, contributes their opinion on the way forward for corporate actions standards.

Our objective is to bring more attention to this important issue and drive a resolution to the uncertainty resulting from having two standards. Whether you are financial services professional, a corporate actions service provider, or just an interested observer, we hope you find the opinions useful in escalating the debate and a catalyst in forming your own viewpoint and plans.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between a 15022 Rock and a 20022 Hard Place</td>
<td>4</td>
</tr>
<tr>
<td>Tim Lind, Head of Legal Entity and Corporate Actions, Thomson Reuters</td>
<td></td>
</tr>
<tr>
<td>SWIFT 15022 and 20022 Standards: An Uneasy Coexistence</td>
<td>8</td>
</tr>
<tr>
<td>Christopher C. Remondi, Partner, Brown Brothers Harriman</td>
<td></td>
</tr>
<tr>
<td>Why We’re Committed to ISO 20022</td>
<td>10</td>
</tr>
<tr>
<td>Daniel Thieke, Managing Director, The Depository Trust &amp; Clearing Corporation (DTCC)</td>
<td></td>
</tr>
<tr>
<td>Direction of Standards in the Corporate Actions Industry</td>
<td>12</td>
</tr>
<tr>
<td>Deborah Culhane, Chief Operating Officer, Fidelity ActionsXchange</td>
<td></td>
</tr>
<tr>
<td>Evolution #9</td>
<td>14</td>
</tr>
<tr>
<td>Gerard Bermingham, Senior Vice President of Business Strategy, Information Mosaic</td>
<td></td>
</tr>
<tr>
<td>Transforming Uncertainty into Opportunity</td>
<td>16</td>
</tr>
<tr>
<td>Daniel E. Retzer, Managing Director and Chief Technology Officer, XSP</td>
<td></td>
</tr>
<tr>
<td>Conclusion</td>
<td>20</td>
</tr>
<tr>
<td>Contributors</td>
<td>21</td>
</tr>
</tbody>
</table>
BETWEEN A 15022 ROCK AND A 20022 HARD PLACE

By Tim Lind
Corporate actions are a reflection of the business laws of individual countries and will never be completely standardized across all markets. After all, corporate actions are a reflection of the artistic creativity and financial obfuscation that can only come from a perfect storm of bankers, accountants, and lawyers. Given these facts, protecting the rights of investors in the complex corporate legal structures of public companies will always be a subject to some degree of interpretation risk, making humans an integral and necessary part of the corporate actions workflow.

Pursuing a career in the field of corporate actions is not for the faint of heart. To be a corporate actions professional you must first embrace a combination of pragmatism and patience reserved for an elite few. If you enjoy a spirited debate on the appropriate treatment of a dividend reinvestment plan or how to exercise a right, then corporate actions may be for you. But as all veterans of this process will tell you, before embarking on a discussion on standardizing the communication of corporate events, it’s important to remember the Corporate Actions Prayer:

“Grant me the serenity to accept non-standard corporate actions that I cannot automate, the courage to automate what I can, and the wisdom to know the difference.”

The point is while perfection is unobtainable, the corporate actions professional never stops in their pursuit of higher automation, better customer service, and their fiduciary duty to ensure shareholders are advised of all rights and outcomes that result from a corporate action, allowing them to make informed decisions about the best course of action for the portfolio. Perhaps it was with this aspiration in mind that the ISO 20022 messaging protocol was created.

ISO 20022 was designed to be a leap forward in terms of functionality over the incumbent messaging standard, creatively known as ISO 15022. ISO 20022 was more than a simple message, it was a framework or “recipe” for making financial messages. Based on a modern syntax such as XML, a formal modeling technique, and a comprehensive data dictionary, ISO 20022 held the promise of increased rates of automation and an overall lower cost of integration and maintenance when compared with ISO 15022. ISO 20022 is more flexible, allows for reusable components, and could potentially support a wider range of data attributes, not to mention take advantage of ubiquitous editing and document management tools that natively speak XML. Conversely, ISO 15022 was based on an older syntax and lacked flexibility when it came to introducing new requirements.

While ISO 20022 was created with the best intentions, something very bad occurred along the way. Unlike many business processes and technologies, outside of ISO 15022, corporate actions processing had no legitimate competition in terms of messaging standards. That was until ISO 20022 was created to address the same business processes.
The Business Case

The business case to migrate from ISO15022 to ISO 20022 was always challenged in terms of articulating tangible benefits. How much additional automation would it support? If there were gaps in ISO15022 why wasn’t the standard enhanced to close those gaps? What about legacy systems and the costs of migration? The business case for ISO 20022 is still being compiled years after it was introduced.

ISO 20022 was created by the same community and process that developed ISO15022, all under the careful governance and bureaucracy of the ISO financial message registration process. The initiative was widely publicized and any bank active in standards or the SWIFT community was aware of the effort. The development of ISO 20022 was supported tacitly by this community or passively through indifference. Either way, ISO20022 now exists, so what matters is where we go from here.

While the business case for ISO 20022 is debatable, the corporate actions industry must choose between the unpopular approach of a forced migration to ISO 20022 or managing a prolonged period of fragmentation between two “standards.” This is the financial messaging equivalent of being between a rock and a hard place.

While none are particularly appealing, there are at least three alternatives:
1. Indefinite fragmentation between ISO 15022 & ISO 20022
2. Minimizing fragmentation by limiting use of ISO 20022 to specified market infrastructures
3. Setting a firm migration date for ISO 20022

The Myth of Coexistence

Rather than force a consensus and resolution to the business case, an insidious new word has seeped into the debate: Coexistence. Make no mistake, coexistence may seem like a rational compromise that allows gradual migration but it defeats the entire objective of ISO 20022. Coexistence equals fragmentation between standards and imposes prolonged cost and burden on all parts of the corporate actions community for an indefinite time.

The argument for coexistence is based on the suggestion that migration is impractical and expensive. A handbook written to promote the new standard, ISO 20022 for Dummies (yes, that really exists), summarizes the case for coexistence by acknowledging the challenges presented by legacy systems and the reality of fragmentation around the global community.

To quote from the book, “the financial community is a dominant user of ISO financial services standards. But for the majority of its members the cost of migrating their legacy applications to ISO 20022 outweighs the costs of having several standards coexisting.” It further notes that we speak different languages, have different systems of measurements, and as terrifying as it seems, some countries still insist on driving on the wrong side of the road. In essence, the global community has learned to adapt to our differences.

It’s true that fragmentation is a reality of our world, but why would we ever pursue a standards strategy that leads to more mapping and the risks imposed by additional translations?

The reality is that coexistence is a weak compromise that ensures additional costs to the corporate actions community. The business case for ISO 20022 is based on increasing automation and reducing cost but obviously these benefits can only be realized if the standard is actually used – by everyone. Further, if only a fraction of your counterparts use ISO 20022 you will be likely forced to build interfaces and workflow logic to manage it while not retiring any of the infrastructure used to manage ISO 15022. Any business case for investment in an improved process is reliant on the ability to relieve the cost and distraction of the incumbent legacy system. Coexistence simply adds to the cost, complexity, risk, and overall distraction of corporate actions. The bottom line is if the business case for migration is marginal then the business case for coexistence is absolutely horrible.

Other Options

To be clear, there is no easy way forward and other alternatives have their own shortcomings. There will be mapping, conversion, and additional expense with every option. That should have been made aware to all parties when it was decided to create a new standard for corporate actions. The point is to either reduce the awkward transition period as much as possible or avoid coexistence all together. It comes down to a very simple choice.

If you believe standards are designed to harmonize practice and that ISO 20022 has tangible benefits over ISO 15022, then there is no alternative other than to set a date for migration and a cutover to ISO 20022. Setting a date gives the community a reasonable opportunity to update systems.
and an absolute commitment to change. Beyond the commitment of the major banks, data providers, and software vendors, the most effective mechanism to force this migration will be to discontinue the support of ISO 15022 on the SWIFT network as of a specified date.

If you don’t believe a migration to ISO 20022 has benefits, and want to avoid the complexity of two corporate actions standards for the foreseeable future, the alternative would be to limit the use of ISO 20022 to specific market infrastructures or closed communities. DTCC and other market infrastructure have already committed to ISO 20022 as they upgrade their own depository services. ISO 20022 represents a clear improvement over domestic proprietary standards. Wider use among custodian bank networks and their investment management clients would not be promoted until an agreement on a rational migration plan is established.

Whatever direction you support, now is the time for strong leadership, especially within the standards community. SWIFT drove the development of a second corporate actions standard which led to this potential fragmentation, so it seems appropriate they drive the action plan to get us out of the wilderness. Without a firm consensus on migration plan, continued education and blind promotion of ISO 20022 ignores the real challenge and only makes the probability of fragmentation greater. While the alternatives are clear, the current plan of deciding not to decide shouldn’t be an option.

This is not an indictment of the standards process itself. It should be noted that the process to develop financial messaging standards is a massive undertaking and many dedicated individuals have given their energy, patience, and commitment to make this industry more efficient.

We’ve learned that standards shouldn’t always adapt to make legacy more convenient - legacy must be modernized to embrace the value of harmonization and superior practices we have learned through our collective experiences. During this process we’ve learned that as much effort must go into driving agreement on the migration plan as there is in defining the message standard itself. Perhaps that is the most important lesson that will come from the debate on ISO 20022.

But for now, let’s all say the Corporate Actions Prayer together, shall we?

Tim Lind is the head of Legal Entity and Corporate Actions at Thomson Reuters.
SWIFT 15022 AND 20022 STANDARDS: AN UNEASY COEXISTENCE

By Christopher C. Remondi
By Christopher C. Remondi, Brown Brothers Harriman

As we all know, our industry currently exists under two messaging standards: ISO 15022 and ISO 20022. ISO 15022, the older standard, brought structure, control and measurable automation benefits to the securities clearing, settlement and corporate actions areas. The newer ISO 20022 is the next generation of defined messaging standards that focus the industry’s sights on business process and complete end-to-end straight-through processing (STP) capabilities. The coexistence of the two standards may prove an impediment to realizing the full potential of automation, particularly in the corporate actions arena. Evolving market trends have accelerated the complexity of corporate action events and the ISO 15022 messages are not equipped to handle the change.

The DTCC Re-engineering initiative for the U.S. market will transform U.S. corporate action processing by launching directly into ISO 20022. This approach is local to the U.S. market, and while beneficial, does not provide a global solution. Will this start a wave globally? Which market will take the next leap? What results are others looking for in order to move ISO 20022 forward?

Conflicting Mindsets

As we manage in a period of uneasy coexistence given the U.S. developments, we are not only supporting two standards, but also contending with two mindsets. Both proposed approaches come with a cost: the first, the risk of potential large-scale disruption; the second, the cost of maintaining two standards.

The first view believes the industry cannot move to ISO 20022 until all parties are ready. Similarly, the conversion to ISO 15022 in 2001 was a “big bang” approach with all constituents converting at once. ISO 20022 has been successful in certain segments – such as funds and payments – where there were limited standards previously. In addition, these segments followed defined set deadlines for migration. Unfortunately, this all-or-nothing approach delays the benefits of ISO 20022 for the corporate actions industry.

A second view looks to embrace the strategy for transformational change by adopting ISO 20022 in a phased approach. By building the framework of new standards in carefully planned phases, risk can be controlled. A flexible schedule may be more adaptable to the evolving regulatory initiatives and requirements across countries. Firms would be able to focus on the business processes at hand and apply lessons learned from previous developments to mitigate risk more closely. The “time” to coordinate with clients in a thoughtful manner will reduce the anxiety and concern over one “flip of the switch.”

Undoubtedly, this time of coexistence will come at a cost, which is why limiting the length of a parallel environment is crucial to the global adoption of ISO 20022 standards. ISO 20022 will not advance while anchored to ISO 15022.

An Expensive Situation

Coexistence is expensive and cumbersome. To effectively manage cost, the length of a parallel environment must be limited. Perhaps one of the strongest arguments in support of the 20022 standards is the expense associated with maintaining multiple standards. Each year, the need to update standards requires firms to spend a significant amount in development, testing and maintenance activities. Over time, the risk and cost of supporting a splintered environment will increase. Why maintain both indefinitely, if the goal is to move to ISO 20022 strategically? Can we draw a line in the sand and advance?

So, what can we do to control these costs? Perhaps we should incentivize users and manage cost by creating new solutions in ISO 20022 standards. This will provide users ready to migrate the benefits of ISO 20022, a more competitive advantage, and increase processing efficiency. Meanwhile, draw that line in the sand and end coexistence productively.

All clients wish for solutions, which will give them more time to make investment decisions. By fully automating the communication process between global service providers, ISO 20022 standards will make clients’ wishes a reality. Clients will reap full benefit only if their providers are on board. The providers’ strategic infrastructure investment plans should be centered on the adoption of ISO 20022 standards. These investments are justified when clients and service providers alike are moving in tandem with the direction of the industry.

Time to Forge Ahead

We have before us a corporate actions standard solution that can propel the industry toward increased end-to-end STP, improved client service, and reduced risk and cost. Let’s forge ahead with clearly defined migration dates. We don’t want to be struggling with the problems of today when the problems of the future arise. The time has come to “rip off the band-aid.” We must not let the capabilities of ISO 20022 be stifled by the constraints of ISO 15022.

Christopher C. Remondi is a Partner at Brown Brothers Harriman

We have before us a corporate actions standard solution that can propel the industry toward increased end-to-end STP, improved client service, and reduced risk and cost. Let’s forge ahead with clearly defined migration dates.
WHY WE’RE COMMITTED TO ISO 20022

By Daniel Thieke
By Daniel Thieke, The Depository Trust & Clearing Corporation (DTCC)

When The Depository Trust & Clearing Corporation (DTCC) first considered its corporate actions reengineering initiative several years ago – a multi-year program that would eventually replace all of DTCC’s legacy systems – it met with its stakeholders to investigate ways to approach this massive undertaking.

Both DTCC and its customers agreed that it was time for the U.S. market to move to global standards in order to gain the efficiencies of communicating in a common protocol. This would increase the level of automation and streamline the processing of corporate actions information by ensuring that DTCC, the custodian, broker-dealer and the investment manager – everyone in the corporate actions chain – would speak the same language and use the same standard.

At the time, DTCC weighed several options, including the use of ISO 15022, the messaging standard which has widespread use throughout other markets, and was already in place with many firms. But when it compared ISO 15022 to the newly introduced ISO 20022 standard, DTCC saw a number of benefits in the new standard.

It was clear that ISO 20022 was the future of corporate actions processing in both the U.S. and around the globe. DTCC and its customers understood that ISO 20022, with supplementary data extensions developed by DTCC in conjunction with SWIFT, would afford DTCC with the best way of providing information to customers in an accurate, timely, and cost-effective way.

ISO 20022 will reduce one of the great risks that comes with corporate action processing, namely the misinterpretation of data when it is transferred from one party to another. With increased data and improved identification and representation of events, ISO 20022 will reduce this risk significantly while dramatically boosting efficiencies. What’s more, DTCC’s corporate action identification number, coupled with ISO 20022, enables a corporate actions user to track an event from the initial notification, all the way through to instructions and payment.

In 2011, DTCC finalized all of its corporate actions ISO messages for announcements – a first for the global market – and in April 2011 launched a pilot program with leading corporate action users that included BNY Mellon, Brown Brothers Harriman, JPMorgan Chase and National Financial Services LLC.

The pilot group tested corporate actions announcements for all event types, including dividends, principal and income, redemption and reorganization events such as rights, tender offers and warrants. Feedback from the firms was extensive and positive throughout the pilot and the ISO 20022 messages were implemented into production in November 2011.

Pilot firms have noted that prior to utilizing ISO 20022, the data they received from DTCC was in a non-standardized, proprietary format sent in batch files, which required additional data management on their end. They named the time lag and the high degree of manual intervention needed to convert data into consistent formats as motivators for moving to ISO 20022. They indicated that the data DTCC is now sending is timelier, more robust, and in compliance with market practices – a confluence of benefits that justifies the business case for migration.

Three of the pilot firms have already gone live with DTCC’s ISO 20022 announcements. This summer, Brown Brothers Harriman and BNY Mellon went live over the SWIFT network and JPMorgan Chase went live using DTCC’s SMART network. Another 15 firms are now in various stages of adopting ISO 20022.

With the successful completion of the announcements pilot, DTCC in September 2012 launched the next phase of its reengineering initiative – an ISO 20022 pilot for the entire lifecycle of distribution events, beginning with entitlements and payments and moving on to instructions. With this phase of the initiative, message traffic will now begin to flow back from the end investor, and ultimately to DTCC, using a standard messaging format to reduce the risk associated with election processing. DTCC is committed to the ISO 20022 standard for corporate actions, and is mandating the migration of all of its users to the standard by 2015.

Daniel Thieke is a Managing Director at The Depository Trust & Clearing Corporation (DTCC)
DIRECTION OF STANDARDS IN THE CORPORATE ACTIONS INDUSTRY

By Deborah Culhane
ActionsXchange continues to demonstrate its leadership in support of industry initiatives designed to enhance market data standards, particularly where these standards improve the ability of our clients to increase the automation of corporate actions across global markets. The introduction of ISO 20022 and our early adoption with DTCC pilot firms serves as a clear example of this commitment.

However, this particular effort, which requires the coexistence of the new ISO 20222 standards in conjunction with existing ISO 15022, also underscores the ongoing challenges the industry faces as we continue to add more complexity, fragmentation and cost to messaging delivery. Dialogue regarding advantages of the new messaging standards aside, there is a need for increased collaboration on a global basis with standards bodies and associations.

Financial firms continue to be challenged by the need to divert limited technology and other resources to the broader business and regulatory issues they face. In order to obtain necessary resource commitments, firms will need clear industry and business guidance to make the case in support of the investment and migration to this new standard.

Accordingly, the coexistence of ISO 15022 and 20022 should be viewed as the initial step toward a limited, phased implementation approach which is part of an actively managed transition plan with clear business value, supported by specific transition timeframes endorsed by the industry. Without a clear mandate for transition, achieved through more active industry dialogue and collaboration, our progress in improving messaging standards which deliver increased business value and risk mitigation will be further challenged by the increased expense and limited value of supporting coexisting standards.

Globally, the adoption of ISO 20022 messaging remains slow as a result of no clear business or industry directive for adoption. As noted, the associated risk to sustaining ongoing progress in the development of improved standards to address market complexities and improve STP opportunities is considerable, and the unnecessary cost of maintaining both standards may be far better directed to establishing a clear migration approach. Without industry leadership and strong business support, firms will struggle with creating the case to allocate the necessary business and technology resources required to migrate to 20022.

SWIFT should continue to educate firms on the benefits and value of migrating from ISO 15022 to the 20022 standard. More importantly, the broader financial community needs to work with SWIFT to achieve industry consensus and a clear plan and timeframe for migration to the single standard - not only as a cost avoidance but to ensure continued progress towards improved messaging standards, promoting common market practices and improving the overall effectiveness of the processing of corporate actions.

Deborah Culhane is the Chief Operating Officer at Fidelity ActionsXchange

More deliberate progress in establishing a clear transition strategy and migration plan to ISO 20022, one that delivers business value, remains a key challenge to more widespread adoption of the single standard.
The long history of messaging standards around securities processing has certainly been an evolution. From the introduction of ISO 775 with its focus on securities-based syntax, to the fuller, securities-based MT56x messages of ISO 15022, it is clearly evident that standards have evolved to address the specific processing requirements of the financial industry. With the introduction of ISO 20022, that evolution is further evidenced by the deployment of XML formats and through the use of core messages and various extensions that address specific processing and market needs. However, without the incentive of a defined cut-over date, an indefinite coexistence period will persist in which support will be required for both ISO 15022 and ISO 20022. This will result in little or no motivation for migration and adoption of ISO 20022 outside of US corporate actions. Perhaps what is needed is not evolution but a revolution.

As the philosopher George Santayana wrote, “Those who do not learn from history are doomed to repeat it.” SWIFT should be credited with trying to apply this principle in the case of ISO 20022 adoption. For those financial industry historians who recall the SWIFTNet FIN initiative dating back to the beginning of this century, the project was initially conceived as a “big bang” approach. The migration from the X.25 network to SWIFTNet FIN’s VPN platform was as large a project as could be imagined. All SWIFT users – small, medium, and large – were required to move to the new platform by a given date. While some earlier adopters were allowed, most were given a definitive roll-out conversion date at the end of a two-year period. Due in great part to this highly aggressive and ambitious approach, it failed to meet its original date more than once. Approaching the original cut-over date, a couple of the large SWIFT customers announced that they would not be prepared in time. As a result, SWIFT moved the date. And moved it more than once. This does beg the question as to whether the delay would have been enacted had a smaller user not been ready.

Is SWIFT trying to avoid a recurrence of this scenario in its approach to ISO 20022? Surely, a coexistence period is closer to creationism than “big-bang.” However, while there were obvious setbacks in the SWIFTNet FIN initiative, it did get everyone (eventually) on board with the modern and scalable network that is enjoyed today. Perhaps a “big bang” – or even a “big stick” – approach is what is needed in this case.

Another possible key in providing clear incentives to financial firms in regard to ISO 20022 adoption is to broaden the use of the messages to other processing areas. While corporate actions is certainly in need of more robust messaging options, what about areas such as settlements? In fact, there are other global initiatives in which the deployment of ISO 20022 would not only help SWIFT users but also help justify the migration itself. The Target 2 Securities (T2S) project in Europe is one such initiative.

T2S is a proposed securities settlement engine that will create centralized delivery-versus-payment (DvP) settlement in central bank funds across all European securities markets. The current go-live date is 2015, coincidently the same cut-over year as ISO 20022 for DTCC. As one of the primary goals of T2S is to aid in establishing a single market for financial services throughout Europe, why not use the most recent ISO standard? Adoption and use of ISO 20022 thus far has been witnessed primarily in the US though the DTCC’s corporate actions initiative. With little or no current prospects of take-up outside of the US market, why not deploy it in a key project in Europe, always seen as the region most willing to adopt SWIFT standards?

SWIFT’s forward thinking and application of modern messaging techniques in developing ISO 20022 should be recognized by the industry. However, building a solution and hoping for adoption doesn’t necessarily mean “they will come.” Not only would it be a terrible waste if ISO 20022 was used in limited processing areas and in limited markets, but it would cause integration problems throughout the industry. Not only would SWIFT have to support multiple standards but many institutions, including data and application providers, will be forced to as well.

Organizations are generally conservative when it comes to change and are reluctant to make the investment if they don’t have to. In many cases, particularly outside of the US, ISO 15022 works, so the thought is, “if it’s not broken, why fix it?” This mindset will continue unless SWIFT or other standards implementers present the benefits of ISO 20022 and set a definitive cutover date.

Gerard Bermingham is a Senior Vice President of Business Strategy for Information Mosaic.
That coexistence between the ISO 15022 and 20022 messaging standards presents challenges to the producers and consumers of financial data is without question. These challenges, however, also yield opportunities for solutions providers, vendors and consultants that possess demonstrated expertise in both standards. This juxtaposition of needs and opportunities is a common pattern expressed in what is referred to as the Technology Adoption Lifecycle. The Technology Adoption Lifecycle is not specifically limited to technology – it actually represents the sociological motivations guiding consumer behavior when a new technology or product is introduced. That is not to say that the coexistence between ISO 15022 and 20022 standards is a technology challenge. Rather, it stands to reason that the adoption of 20022 will follow a pattern common to most innovations. This pattern will persist until such time as the adoption of 20022 reaches the boundary between the Early Majority and the Late Majority as depicted in the Technology Adoption Lifecycle. Until that time, 15022 will continue as the de facto standard until the market demands otherwise.

The global adoption of 15022 is ongoing, and the overall trend enters what is considered the “Late Majority” phase – that is the point in the adoption curve where the solution has reached sufficient maturity and market penetration to be considered the incumbent – or legacy – solution. This does not indicate that 15022 use is decreasing. In fact, SWIFT’s own usage statistics indicate otherwise. It indicates that the rate of adoption will begin to decline as the standard has reached majority penetration. It is also at this point in the standard’s lifecycle, as is the case with all innovations, where firms that are heavily leveraging the standard begin to demand improvements in the standard to keep abreast of changes in the market or in advances in technology or systems that consume the standard. This signifies a transition from stabilization to dissatisfaction.

It stands to reason that the adoption of 20022 will follow a pattern common to most innovations.

TECHNOLOGY ADOPTION LIFECYCLE

The Technology Adoption Lifecycle was developed by Joe M. Bohlen, George M. Beal and Everett M. Rogers at Iowa State University built on earlier research conducted there by Neal C. Gross and Bryce Ryan.

...Continued on page 18
The pattern of adoption, stabilization and dissatisfaction is repeated time and again and spans multiple industries and innovations. It is not unique to the current state of standards coexistence between 15022 and 20022, and it is reasonable to expect that reaction to this pattern observed in other industries will be mirrored in the 15022/20022 debate. The Technology Adoption Lifecycle predicts that when the incumbent solution, such as 15022, reaches the downhill slope of the adoption curve and becomes the state of practice, a number of gaps begin to emerge that prevent it from growing. These gaps are usually tied to an inability to scale, inflexibility in the standard, or failure of the standard to remain relevant with the pace of change in related industries.

The incumbent attempts to remain relevant through stepwise improvement, but over time these changes inflict large amounts of disruption into the consumer base on a more frequent basis. It is during this period, when a standard or technology has reached extensive adoption that the cracks begin to show and a new standard is posited in response.

Thus begins a new Technology Adoption Lifecycle as a new standard is developed and marketed. This new lifecycle, however, introduces an additional layer of disruption when the market is already dealing with maintaining the previous standard. Consumers are now torn between waiting for the new standard to stabilize and deal with the shortcomings of the incumbent standard or to leap the next Early Adopter Gap with the faith that this jump will yield the improvements and innovation promised by the new standard and eliminate the costly maintenance cycle of the incumbent. The result is overlapping Technology Adoption Lifecycles with no clean dovetail from the incumbent solution to the innovation.

This point in time where two or more disruptive activities overlap becomes a Zone of Uncertainty and is fertile ground for entrepreneurs and solutions providers alike. Solutions providers (software companies, consultants, device manufacturers, etc.), who are already in the business of solving complex, risky problems for industry at large, recognize that these periods of overlap yield opportunities to assist their clients with supporting their legacy paradigm while helping them navigate to the innovative, new standard.

The financial community’s stand is clear; it wants and needs standards that drive efficient market operations and transparency.
The financial community’s stand is clear; it wants and needs standards that drive efficient market operations and transparency. However, adoption in various business models needs different obstacles. Some challenges can be addressed using existing resources while the majority will require new resources, sustained financial investment and significant collaborative effort. Although some firms are already taking bold steps to adopt 20022, many are still only capable of using 15022. If 15022 were to reach end-of-life today, the challenges of standardization will continue to impact the industry for years to come. Legacy application integrations, lack of understanding the broader picture and the absence of demonstrative business cases are increasingly compromising the advance to adopt the latest 20022 standard. Adopting the ISO 20022 standard in response to improving straight-through processing and the quality of information flow presents a significant challenge for many firms. As a result, uncertainty leads to coexistence.

The coexistence between the 15022 and 20022 standards for firms that are dependent upon the reliable and consistent delivery of data utilizing the incumbent standard are also beginning to see the deficiencies in the standard. These deficiencies require either costly or disruptive changes to overcome, or require the adoption of a new set of standards. In many cases, it will be necessary to maintain two sets of parallel systems or operations to account for the different standards. In other instances, it may require new systems to manage the conversion from one standard to another. But in all instances, there is opportunity for solutions providers, vendors and consultants to assist firms with the management of both standards and the eventual migration from the legacy standard.

Daniel E. Retzer is Managing Director and Chief Technology Officer for XSP
CONCLUSION

By Tim Lind, Thomson Reuters

It would be shortsighted to look at the case of corporate actions automation only in terms of back-office costs. Instead, the proposition must highlight the capital market’s need to demonstrate its fiduciary culture and lower tolerance for risk of any kind. Such fiduciary obligation should not just be applied for appropriateness of investments or asset allocations, but should be pervasive across all functions where investment returns are impacted. Providing timely and accurate information to shareholders is certainly among these functions and is consistent with the type of accountability the industry needs to take to restore investor confidence.

It’s not easy to introduce new standards. As standards evolve and harmonize, we must recognize the inertia of legacy and its reluctance to change. After all, system and processes achieved the designation of legacy in the first place because they proved to be survivors. Whether you support an evolution or a revolution there is one area with no shades of grey – but a simple and clear black and white truth: Before embarking on a standards initiative that will replace an incumbent, the plan must allocate as much effort into driving agreement on the timing of migration as there is in defining the message standard itself. This is the most important lesson of ISO 20022 for corporate actions.

The market is taking its first steps toward a new standard in ISO 20022 but coexistence will lead to fragmentation which will create additional cost and risk before we move forward again. We can expect more fields, more interpretation, more translations, more potential for proprietary extensions, and more complexity – all new challenges to be overcome. To their credit, DTCC has clearly recognized the need to avoid prolonged fragmentation in their system and took the difficult, but appropriate decision, to set a clear date by which migration must occur.

Corporate actions are an ecosystem where the timing and coordination of change is critical to avoid duplication and risk. The benefits of ISO 20022 are only academic and theoretical unless it is actually used by everybody. In this ecosystem both early adopters and laggards will lead to additional cost. We believe this industry needs more than education and market practice. We need to match our educational efforts with decisions and actions. We need leadership by institutions and service providers to avoid the additional burdens of fragmentation.

Outside of the reengineering efforts by key infrastructure providers like DTCC, the discussion of wider use of ISO 20022 between institutions has become more about contention than implementation. Industry events and publications still discuss the theoretical benefits and promise of ISO 20022 but fail to address the difficult challenge of creating an action plan for migration. The issue can’t be ignored any longer. While education is fine, it’s not a substitute for a plan. If ISO 20022 is to be implemented by the SWIFT community at large we need dates, milestones, and actions. If it’s not, then we need clear guidelines on where it will be used.

In the words of the immortal Elvis, we need “a little less conversation, a little more action please, all this aggravation ain’t satisfactioning me”. For corporate actions, it is now or never for a migration plan.

Before embarking on a standards initiative that will replace an incumbent, the plan must allocate as much effort into driving agreement on the timing of migration as there is in defining the message standard itself. This is the most important lesson of ISO 20022 for corporate actions.
Christopher C. Remondi
Partner, Brown Brothers Harriman

About Brown Brothers Harriman

BBH is a privately held financial institution that has been a thought leader and solutions provider for nearly 200 years. The firm serves the most discriminating and sophisticated individuals and institutions in its five business lines: Corporate Banking, Investment Management, Investor Services, M&A Advisory and Wealth Management. BBH’s culture of accountability fosters deep and lasting relationships built on commitment, adaptability and trust. The company is independent, selective and specialized by design. BBH’s Investor Services business provides cross-border custody, accounting, administration and execution services in close to 100 markets for many of the world’s leading asset managers and financial institutions.

With approximately $3.3 trillion in assets under custody and administration¹, BBH is consistently ranked among the world’s top global custodians, asset administrators, foreign exchange, and securities lending providers.² BBH operates a global business with seventeen locations, including Beijing, Boston, Charlotte, Chicago, Denver, Dublin, Grand Cayman, Hong Kong, Kraków, London, Luxembourg, New Jersey, New York, Philadelphia, Tokyo, Wilmington and Zürich.

For more information about Brown Brothers Harriman’s integrated and differentiated approach, please visit www.bbh.com.

¹ As of June 30, 2012.
² As measured by results in major industry surveys.

Daniel E. Retzer
Managing Director and Chief Technology Officer, XSP

About XSP

XSP is the global leader in end-to-end Corporate Actions automation solutions for the financial community. Accredited with the SWIFTReady label, the XSP® v5 platform is ISO 15022 compliant and proven to mitigate the operational risks and costs associated with Corporate Actions processing. The XSP v5 platform is available in a Cloud hosting environment or as a local deployment.

Our new SaaS offering, XSPrisa™, can get you up and running in hours so you can instantly and inexpensively benefit from the power and agility of the XSP v5 platform to simplify the Corporate Actions process and mitigate risk. This new, pay-as-you-go offering eliminates the burden caused by deploying, maintaining and operating software.

The XSP GO!™ Product Suite addresses initiatives around Cloud Computing and Mobility which facilitate automation of the last mile in the global Corporate Actions processing chain. XSPression™ is a private social network connecting global XSP clients to collaborate and discuss best practices and complex events.

XSP is a Microsoft Gold Certified partner and has achieved a Microsoft Competency in ISV/Software Solutions.

For more information visit: www.xsp.com

Follow us on Twitter: @XSPGlobal

...continued on page 22
CONTRIBUTORS

Daniel Thieke
Managing Director, The Depository Trust & Clearing Corporation (DTCC)

About DTCC
Through multiple operating facilities and data centers around the world, DTCC and its subsidiary companies automate, centralize, and standardize the processing of financial transactions for thousands of institutions worldwide. With almost 40 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry, simplifying the complexities of clearance, settlement, asset servicing, global data management and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, derivatives, money market instruments, syndicated loans, mutual funds, alternative investment products, and insurance transactions. In 2011, DTCC processed securities transactions valued at approximately US$1.7 quadrillion. Its depository provides custody and asset servicing for securities issues from 122 countries and territories valued at US$39.5 trillion. DTCC’s global OTC derivatives trade repositories record more than US$500 trillion in gross notional value of transactions made worldwide across multiple asset classes.

For more information visit: www.dtcc.com

Deborah Culhane
Chief Operating Officer, Fidelity ActionsXchange

About Fidelity ActionsXchange
Fidelity ActionsXchange is the trusted provider of global corporate action solutions for many of the world’s top asset managers, broker-dealers and hedge funds. ActionsXchange’s innovative products combine cutting-edge technology, timely and accurate financial information with unparalleled expertise. Our solutions help clients reduce risk, increase operational efficiencies and manage costs while adding powerful intelligence to their investment decisions. Leveraging more than 10 years of experience, we work closely with our clients to understand their unique business needs and address their most complex challenges.

For more information visit: www.actionsxchange.com

Or contact us at: 877.777.5838
CONTRIBUTORS

Gerard Bermingham
Senior Vice President of Business Strategy, Information Mosaic

About Information Mosaic
Information Mosaic is a trusted global provider of advanced post-trade automation solutions to the securities and investment services industry, including custody, asset servicing, private wealth management, asset management and investment banking. The company is a recognized market leader for corporate actions automation, winning multiple awards for best corporate actions solution and achieving record scores in independent benchmark tests.

Founded in 1997, Information Mosaic currently supports the post-trade operations of over 60 financial institutions worldwide. The company has a proven track record of helping financial institutions transform post-trade operations, enabling them to enter new markets, improve customer service and reduce the risk and cost associated with volume and complex processing. Information Mosaic’s post-trade automation platform reduces risk and cost for all core post-trade services including corporate actions, securities settlement, trade, portfolio and cash management.

The company supports its global customer base from offices in Dublin, London, Melbourne, New Delhi, Singapore, Kuala Lumpur, and New York.

For more information visit: www.informationmosaic.com
Follow us on Twitter: @infomosaic

Media Inquiries:
Information Mosaic Americas
+1 646 553 5211
info@informationmosaic.com

Tim Lind
Head of Legal Entity and Corporate Actions, Thomson Reuters

About Thomson Reuters
Thomson Reuters Corporate Actions Data spans over 90 countries, 200 exchanges, approximately 94,000 companies, and more than 15 years’ history for all mature markets. We have over 200 data experts dedicated to the collection, analysis and quality control of equity corporate actions content. Corporate Actions data Events are captured as soon as they are announced; 90 minutes from announcement to the desktop. Web interfaces and delivery format include: FTP, CSV, XML, fixed format and ISO 15022.

Thomson Reuters is the world’s leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial and risk, legal, tax and accounting, intellectual property and science and media markets, powered by the world’s most trusted news organization. With headquarters in New York and major operations in London and Eagan, Minnesota, Thomson Reuters employs approximately 60,000 people and operates in over 100 countries. Thomson Reuters shares are listed on the Toronto and New York Stock Exchanges.

For more information visit: http://thomsonreuters.com