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Bringing issuers into the standardisation fold

The joint work by SWIFT, DTCC and XBRL US to standardise corporate actions announcements is set to bring benefits throughout the chain, from issuer to investor.

The inefficiencies created in the corporate actions process because issuers announce events in non-standard formats are well known. Much has been achieved during recent years through ISO standardisation and automation among financial intermediaries in the corporate actions chain, but until the issuers are fully on-board with standardisation there will always be a crucial gap.

Currently, issuers do not generate announcement information in a standardised, electronic format. Many good reasons can

be cited for them not to standardise, but the results are that the investors' intermediaries – such as the custodian banks – must manually generate electronic records containing the corporate event details that investors need. Each of many intermediaries and data providers is interpreting announcements to manually create data, often with variations. The outcome of this interpretation can vary widely, bearing in mind the complexity of many events. To reconcile the multiple versions of an announcement, the data messages from multiple sources go through a manually-intensive scrubbing process. Inevitably some inaccuracy or

misinterpretation remains, introducing the risk of not acting appropriately on an event, sometimes leading to very high compensation payouts.

This problem can be minimised if the industry standard is adopted earlier in the lifecycle of a corporate action.

It has been suggested that issuers have little to gain from getting involved – that the lack of standardisation of announcement information causes problems for intermediaries, but not for the issuers themselves. In fact, issuers do stand to gain. If standardisation is achieved at the announcement stage, the content of the issuer's corporate action can be communicated to the investor with no risk of misinterpretation or delay – and the issuer is not required to devote resources to answering queries about the event.

Since each issuer only infrequently announces a corporate event (four to six times annually), there is, however, a need for tools to help them quickly and easily align with industry standards.

A technology gaining widespread adoption for corporate financial and regulatory reporting is eXtensible Business Reporting Language (XBRL). A new joint effort by SWIFT, Depository Trust & Clearing Corporation (DTCC) and XBRL US is leveraging the success of XBRL as a technology to improve issuer-investor communications for corporate actions in the US. The approach also has global applicability, as both XBRL and SWIFT are international organisations, and there is a commitment to ensure alignment with global ISO standards. The effort is starting in the US, but will soon be replicated in other major financial markets.



We have an opportunity, at last, to bring clarity to the often manual, labour-intensive and unnecessarily risky business of interpreting information related to corporate action announcements.

*Donald F. Donahue,
chairman and CEO,
DTCC*

SWIFT, DTCC and XBRL US are building a corporate actions XBRL taxonomy with data elements based on, and aligned with, the ISO 20022 repository elements. This will enable issuers to electronically and easily “tag” data using off-the-shelf or open source software when preparing a prospectus. The tagged data can then be readily transformed into an electronic, data-driven ISO 20022 message for consumption and downstream processing, from intermediaries to investors.

Issuers get a straightforward, easy-to-use technology that will enable them to standardise announcements in a way that is aligned with and supports further adoption of the global ISO standards.

Intermediaries continue to use the ISO message standards and will be able to achieve better automation, while investors will be able to make decisions based on more accurate, more timely information.

As Mark Bolgiano, president and CEO of XBRL US points out: “This initiative builds on our unified digital dictionary built around US GAAP, and it leverages XBRL’s momentum in the US financial markets. The leadership of DTCC and SWIFT on this issue will enhance the overall adoption of XBRL in the US, and dramatically improve the corporate actions process throughout the US financial supply chain and, ultimately, in the global marketplace.”

Donald F. Donahue, chairman and CEO of DTCC, adds: “Through this joint initiative we have an opportunity, at last, to bring clarity to the often manual, labour-intensive and unnecessarily risky business of interpreting information related to corporate action announcements. This is especially critical today when the market is seeking greater transparency of issuer information. DTCC places a high priority on our work with SWIFT and XBRL US to bring greater certainty



Collaboration among SWIFT, DTCC and XBRL will promote straight-through processing of corporate actions.

*Chris Church,
global head of securities,
SWIFT*



and improve the communications chain on corporate actions announcements.”

SWIFT is also planning to work with XBRL International in cooperation with local XBRL jurisdictions and securities markets. This will include markets in Europe, as well as Japan, Australia, China and South Africa, among others.

“Already dozens of countries have adopted XBRL for financial reporting, and the next most significant information disclosure impacting equity and bond holdings from an investor’s point of view is corporate actions, so this is an obvious next step,” says Max Mansur, market manager, custody and asset servicing at SWIFT. “In virtually every market in which we’ve discussed this problem, there is complete agreement that data from the issuer is essential to solving the corporate actions problems.”

XBRL in Asia

Japan’s market infrastructures have already strongly invested in XBRL, as have those in China, specifically the Shanghai and Shenzhen Stock Exchanges, which have been heavily

investing in XBRL for corporate reporting since 2004 and have already begun mandating XBRL for dividend reporting. Both are also implementing ISO messaging for communications out to the custodians in the market. South Korea, Singapore and India are very actively using XBRL as are many countries in Europe such as Spain, Belgium, France, UK, Italy and Poland.

Chris Church, global head of securities at SWIFT, says: “Collaboration among SWIFT, DTCC and XBRL will promote straight-through processing of corporate actions by electronically capturing data directly from issuers, or directly at the point that a corporate action is announced, in a standardised format. We believe this initiative will improve transparency and communication between issuers and investors, which in turn will bring greater accuracy and reduced risks and costs to the industry.

“The work we are doing in the US as a start is a stepping stone to making a bigger difference for the industry on a global basis.”

Corporate actions: still a priority post the financial crisis?

Drew Douglas, global head of custody, HSBC Securities Services, shares his views on how to take asset servicing automation to the next level

In light of the global financial crisis, is standardising and automating corporate actions processing still a priority?

Apart from being a very manual process, corporate actions is probably one of the highest risk areas in the investment/custody world. The risk increases during turbulent times, including the volatile markets we have recently experienced. Improving straight-through processing (STP) rates, the information available to clients and reducing operational risk must be a core focus for any custodian.

We will continue to invest in corporate actions efficiency and our clients are requesting more – and better – information, whether on the sub-custody or global custody front. Corporate actions are on everyone's radar, and we will continue to invest significantly in this space.

How important do you believe it is to extend corporate actions standardisation to include the issuer community? Do you believe existing initiatives are well-positioned to achieve this goal?

In all automation, it is important to consider the end-to-end processes. For corporate actions, the process is initiated by companies who created the events which may be further complicated due to legal/regulatory reasons. From that perspective, it certainly makes sense to start the end-to-end automation from the beginning.

However, very often STP and automation initiatives benefit the downstream users more than the upstream users. Therefore, the challenge here is to get the true commitment from the issuers where the business case may not be very attractive, and to persuade them that the whole industry will benefit from such initiatives.

One difficulty here is that the issuers are in such a large community, and the situation is complicated by the number of markets they are in. A more effective way to manage their participation may be by working with those who regulate the issuers: the securities regulators or the stock exchanges. Anything that can be done to better standardise announcements will be hugely beneficial. XBRL will have further advantages, as those that deploy it will also benefit from ease of regulatory reporting and better efficiency in tax reporting.



“Apart from being a very manual process, corporate actions is probably one of the highest risk areas in the investment/custody world.”

Drew Douglas, global head of custody, HSBC Securities Services

What else can be done to further improve levels of efficiency in the corporate actions process?

Apart from the issuers' end, there are also other areas where there is still room for further standardisation and automation. There is still room to improve market compliance with the existing standards and to reduce the use of free format messages and narrative fields. This is something that SWIFT and the Securities Market Practice Groups (SMPGs) could help to enforce. One way to achieve market compliance is probably to introduce higher message costs to the offenders.

Additionally, I believe SWIFT should work to broaden its community of users and reduce the cost of entry for user groups such as hedge funds. Banks would certainly support such a broadening of the community but a particular strategy to tackle this market will be required.

What else do you think SWIFT can do to encourage broader uptake of standards for asset servicing?

Once a standard is complied with and the investment made, agreeing when the old standard will be retired and cutting off the use of the old messages to push the new standard into play is quite important. If an old standard remains in circulation alongside a new one, the

motivation of new users such as issuers and smaller buy sides to adopt standards will be diminished, because it appears more difficult for them to comply. Bigger players who are trying to drive automation out to other users end up having to run dual processes, which is inefficient and expensive.

Where else within the asset servicing business can greater efficiencies be achieved, and how can the lessons learned in corporate actions be applied elsewhere?

Across the broad range of activities that fall under the banner of asset servicing, any further automation will help us reduce costs and risks. Tax is going to be an area where we will see increasing regulatory requirements. Many tax reclaim processes are currently very manual and different tax authorities have different rules. With the Organisation for Economic Co-operation and Development (OECD) initiative to harmonise this, we should see more opportunities for standardisation and automation in the future. The wider use of XBRL/ISO will also benefit other financial reporting automation initiatives. While not purely asset servicing, the developments in corporate actions should also benefit similar developments in the world of securities lending and collateral management.

Welcome to the Sibos issue of Asset Servicers on SWIFT

Sibos 2009 takes place in Hong Kong from 14-18 September. As always, the rich conference programme offers much that is of interest to the asset servicing community, with sessions focusing on corporate actions, proxy voting and reference data – as well as on broader issues such as risk management, regulation and the future of service provision to the buy side. There is more information about Sibos for asset servicers on page 14 of this newsletter, and further details about the event as a whole can be found at www.swift.com/sibos2009.

The emphasis on the asset servicing business at Sibos reflects the importance of asset servicers to SWIFT – an importance that is also demonstrated by the new asset servicing strategy we are developing. We are convinced that we can do more to help you as asset servicers further improve efficiency, reduce costs and mitigate risks, in order to grow your business and better serve your customers in these challenging times.

To support you, we have formulated a plan with four main goals, which we believe constitute a strong underpinning for our strategy to improve our offering for asset servicers. The goals are: to further automate and standardise corporate actions; to work with issuers and their agents to involve them in industry standardisation; to increase levels of compliance with market practices; and to support large infrastructures in migrating to ISO standards for corporate actions.

More details on this strategy and how we plan to take it to fruition can be found on page 6, and this newsletter also contains a number of stories that demonstrate how we are already moving towards these key goals. For example, our cover story brings you up to date on the work we are doing in conjunction with DTCC and XBRL US to support the standardisation of



Sophie Bertin,
head of asset services, SWIFT

corporate event announcements by issuers – an effort that is starting in the US but will be rolled out globally.

Elsewhere in this issue, we bring you news of the progress of our Proxy Voting solution, and how it can support compliance with the new European Shareholder Rights Directive (page 9), as well as insights into how the Bombay Stock Exchange is using SWIFT to disseminate corporate actions data (page 5). You can also find out more about the asset servicing initiative of the International Securities Services Association (ISSA) on page 12, and how SWIFT's Derivatives solution is helping asset servicers and their buy side counterparts eliminate operational costs and risks (page 11).

We welcome your feedback on the stories in this issue, and any suggestions for coverage you would like to see in future issues. Please contact us at: sophie.bertin@swift.com

Sophie Bertin, head of asset servicing and custodians, SWIFT

The emphasis on the asset servicing business at Sibos reflects the importance of asset servicers to SWIFT.

Sophie Bertin, head of asset servicing and custodians, SWIFT

Corporate actions service live on SWIFT in record time

SWIFT's recent corporate actions dissemination project with the Bombay Stock Exchange went from concept to reality in just six months



SWIFT began working with the Bombay Stock Exchange (BSE) on a feasibility study on 13 January 2009 – and

following the kick-off of a corporate actions dissemination project that month, the BSE went live on SWIFT on 5 July.

This unprecedentedly rapid go-live was achieved as a result of the BSE's commitment to the project. The exchange is determined to significantly improve the efficiency of corporate actions dissemination in the Indian marketplace. The BSE is one of the biggest stock exchanges in the world today by number of issuers, and this service will improve the accuracy and timeliness of corporate event information, and the cost-effectiveness of its dissemination to investors.

"The key business drivers for this project were to improve the operational efficiency of the Indian custodian community by bringing in automation and STP," explains Ravi Subramanian, relationship manager, India and the Subcontinent, SWIFT. Arun

Tiwari, head of India, SWIFT, expects large custodians to subscribe to this service.

Community support for the project was significant. The Indian community collaborated to agree on priorities for event types – a goal that was achieved in the first meeting. Levels of participation in the National Market Practice Group (NMPG) have been high, with representatives from both domestic and international custodians. As a result, the formulation of securities market practices for India was also completed in record time. In addition, the Indian Banks Association gave invaluable support to ensure the BSE gained the appropriate SWIFT membership.

The custodians will begin testing SWIFT's data distribution solution for corporate actions in September 2009, with the first wave going into live production in October. The solution enables data providers to connect to SWIFT to distribute corporate actions data in ISO 15022 over SWIFT's FIN or FileAct messaging services.

"Congratulations to the Indian community and the Bombay Stock Exchange for implementing the corporate actions service in such a short timeframe and for their co-operation to ensure high levels of efficiency are gained through adoption of securities market practice," comments Adam Wilson, head of securities, SWIFT Asia-Pacific.

"This is a strategic initiative for BSE as it takes a pioneering step towards introducing international standards, automation and best practices to make Indian securities markets more efficient," says James E. Shapiro, head, market development, Bombay Stock Exchange. "Going forward, BSE would like to explore leveraging its SWIFT infrastructure to further standardise processes." Tiwari adds that, "We will continue to work closely with the BSE to see how that can be achieved."

SWIFT formulates new asset servicing strategy

Customer feedback and commitment are sought to ensure SWIFT can provide new efficiencies for the asset servicing community

The community of asset servicers is a well-established and important customer group for SWIFT. It is also a community for which we believe we can do more – to help you as asset servicers further improve efficiency, reduce costs and mitigate risks, in order to grow your business and better serve your customers in these challenging times.

To meet this requirement, we have formulated a new asset servicing strategy – based on discussions with our asset servicing customers – and we are now seeking further feedback from our community to prioritise the actions required to achieve the strategy, and to develop a business case for pursuing the plan, both for our customers and for SWIFT.

As well as working with the asset servicing community, we are also reaching out to adjacent communities – including issuers and their agents,

registrars, investment managers and data vendors. In addition, we are collaborating with industry associations such as ISSA (see page 12), the Corporate Actions Joint Working Group, the Association of Global Custodians and ISMAG.

The strategy we have created is designed to achieve four main goals: to further automate and standardise corporate actions; to work with issuers and their agents to involve them in industry standardisation; to increase levels of compliance with market practices; and to support large infrastructures in migrating to ISO standards for corporate actions.

We have also defined a number of actions to support these strategic goals – including participating in industry initiatives to ensure convergence of efforts around asset servicing efficiency, and to leverage the capabilities of XBRL, supporting the adoption of the Corporate Actions Unique Identifier, improving the transparency and

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efficiency of shareholders meeting services, and supporting the implementation of ISO 20022 and coexistence with ISO 15022 for corporate actions. Some of these actions are well under way already, as can be seen from the other stories in this newsletter.

By the end of this year, we will have prepared a roadmap for delivery of the strategy, comprising timetables, milestones and deliverables, and setting out dependencies, roles and responsibilities and impact analyses. We will be meeting with our asset servicing customers all over the world in order to get their input into, feedback on and validation of our planned activities.

We need your help to inform our asset servicing strategy going forward. For example, we will be contacting you to participate in our survey on the costs and risks associated with corporate actions. If we can quantify the costs and risks, we can better describe the value of automation and standardisation – and this will help us to create a convincing business case for the involvement of issuers and their agents.

We also need your input on the topic of market practice compliance – and how to improve it by the possible use of a market practice compliance indicator within messages. How much of the message should be covered by the indicator, to find the balance between enforcing compliance with market practices, but not being too stringent too quickly and pushing participants to use alternative communication means? How could differential pricing between compliant and non-compliant messages be best applied?

We will be in touch with our major asset servicing customers and SWIFT partners during the coming weeks, and of course we welcome your feedback on all aspects of our planned asset servicing strategy. Please don't hesitate to contact your account manager or email sophie.bertin@swift.com.

SIX Group seeks to standardise reference data

By extending its relationship with issuers, SIX Swiss Exchange is enabling end to end data management based on one-time data entry



The lack of a common language for reference data to describe financial instruments is a

well-documented problem. The downstream inefficiencies that occur because issuers provide data about instruments in different formats at different times to different entities, including data vendors, exchanges and CSDs, are significant.

In the absence of a standard way of gathering reference data, much re-typing is required, and this can create a domino effect, with errors cascading throughout the life cycle of the product. The non-standardised nature of reference data can significantly impede automation further on in the trade processing chain.

In this context, an initiative by SIX Group to gather reference data from issuers of structured products in a standardised format and offer a range

of services based on that data can be seen as a breakthrough, in terms of both improving reference data for the industry, and engaging the issuer community with industry-wide automation efforts.

SIX Swiss Exchange began in 2002 to enable issuers to use an internet-based application to submit data about structured products for listing purposes, starting with online forms and graduating to machine-to-machine communication to truly automate the process. Both the issuers and the exchange achieved significant efficiencies as a result, and a decision was made to extend the data model (working closely with UBS) and enable issuers to submit reference data required by data vendors (initially SIX Telekurs) and central securities depositories (CSDs) – initially SIX SIS – in a similar way.

Since November 2008, SIX Swiss Exchange has been providing to issuers an interface – called Internet Based Terms (IBT) – enabling the transmission



For all possible attributes and data we use industry standards, including ISO codes and industry sector classifications.

Matthias Müller, IBT project manager, SIX Swiss Exchange

There is a need for neutral infrastructure providers to be the conduit between issuers and other stakeholders in the market.

Markus Gutzwiller, strategic business development, SIX Swiss Exchange

and automated processing of all term sheet data on structured products. According to Matthias Müller, IBT project manager at SIX Swiss Exchange, what this provides for is “one-time data entry and the subsequent distribution of the data in question to all consumers in a standardised, easy to read format”. “For all possible attributes and data we use industry standards,” he adds, “including ISO codes and industry sector classifications.”

Apart from reducing costs for the issuers (the exchange charges considerably less for electronic registration of securities than it did previously for registration in paper form), IBT – along with a significant enhancement of the trading platform – has enabled SIX Swiss Exchange to grow its structured products business in a way that would not have been possible without automation. In 2002, 4000 structured products were provisionally listed for trading on the exchange: more were listed in the month of January 2008 alone. The data model in place can also be extended to cover other financial instruments, including bonds.

Based on IBT, SIX Group has recently launched a new set of standards, tools and interfaces for the life cycle management of financial instruments – called CONNEXOR®. This family of products includes, among others: CONNEXOR® Reporting, the central reporting

platform for transmitting information on corporate and financial instrument events; CONNEXOR® Alerting, for automated announcement, notification and processing of corporate and financial instrument events; and CONNEXOR® Events, the central provider of information on corporate and financial instrument events.

Essentially, according to Markus Gutzwiller, strategic business development, SIX Swiss Exchange, the group is now able to provide data life cycle management from beginning to end, based on one-time data entry by the issuers.

The ability to connect issuers with the rest of the marketplace, including CSDs and data vendors, is crucial if effective end-to-end standardisation is to be achieved. Gutzwiller believes that there is a need for neutral infrastructure providers to be the conduit between issuers and other stakeholders in the market. “At SIX Group we have a unique selling proposition,” he says. “Since our organisation covers the entire financial infrastructure services chain from trading, clearing/settlement/custody to payment transaction and financial information, we are in a position to offer holistic and integrated services to our clients. In the case of CONNEXOR®/IBT data vendors want access to more issuers, and issuers want access to more vendors. We are in an ideal, even unique, position to bring the two together.”



With budgets under pressure as a result of the global financial crisis, investment in improving the proxy voting process may not

be at the top of asset servicers' priority lists at the moment – but it should be.

For institutional investors concerned with ensuring transparency, reducing risk and improving corporate governance in a market environment that demands it, a lack of vote confirmations is a serious worry.

Asset servicers seeking to improve their service to their customers need to help eradicate the risks and costs associated with heavily manual proxy voting processes by adopting ISO 20022 proxy voting messages over SWIFT (or where they outsource, getting their proxy agents to do so), and by mandating that their sub-custodians migrate to ISO 20022 as well – to ensure their customers benefit from an enhanced level of service, including later deadlines and better information on a more timely basis.

As Linda Bookheim, global market manager, asset servicing at SWIFT, points out, there is also, in the European Union, tangible regulatory pressure to improve electronic voting processes in the current environment. Since August 2009, the EU Shareholder's Rights Directive (SRD) has been effective and will be transposed into international law in every EU state. “The SRD is designed to strengthen shareholders' rights by, among other measures, ensuring there are no impediments to participation in general meetings via electronic means,” she says. “Clearly, the ability to vote electronically is seen as vital for strengthening shareholders' rights.”

SWIFT's Proxy Voting solution – which combines industry standard messages with the security and reliability of SWIFTNet – is “the most robust option for industry adoption

Proxy Voting automation: the time is now

The groundswell of pressure to ensure transparency, reduce risks, improve corporate governance and comply with increasingly demanding regulation creates a compelling business case to invest in ISO 20022 proxy voting messaging over SWIFT

of electronic voting in EU member states”, Bookheim adds. As well as being the optimal technical solution for SRD compliance, the SWIFT solution is also the strategic option, since ISO standards have been clearly identified as the necessary underpinning for cross-border processing efficiency within Europe – notably as the chosen solution to eliminate Giovannini Barrier 1. (For more information, see a new paper, *How SWIFT’s Proxy Voting solution ensures compliance with the EU Shareholder’s Rights Directive*, available on swift.com.)

The latest release of the ISO 20022 proxy voting message standards – developed with full industry participation, including submissions from European Issuers, ECSDA (European Central Securities Depositories Association), the ECSAs (the European Credit Sector Associations), EBF (European Banking Federation), ESBG (European Savings Banks Group), EACB (European Association of Co-operative Banks), ESF (European Securities Forum) and FESE (Federation of European Stock Exchanges) – fully complies with the SRD. This new release, Proxy Voting 1.1, will go live on 21 November 2009, and is already available for testing. Final documentation is accessible in the SWIFT User Handbook online.

The objective of this release is to provide a solution which is not only compliant with the SRD, but also aligns with the



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Linda Bookheim, global market manager, asset servicing at SWIFT

corporate actions ISO 20022 reverse engineering project – and this relates to another driver for implementing SWIFT’s Proxy Voting solution now, according to Bookheim. “In November 2010, the ISO 20022 corporate actions messages

will be available on the network,” she says. “There will be no translation for the existing ISO 15022-based meeting messages, so the 250 SWIFT customers using these will need to migrate the processing for meeting event types in

corporate actions to ISO 20022 Proxy Voting messages.”

In a similar vein, Euroclear users will adopt ISO 20022 proxy voting messages by the end of 2010 in line with Euroclear’s migration to its Single Platform and Common Communication Interface (CCI) – and for ease and efficiency they should adopt the same messages over SWIFT to communicate with all their counterparties.

There is good news in that plenty of support is available for asset servicers that need to implement Proxy Voting. SWIFT will offer proxy voting message training from Q1 2010. Firms can tap into a growing understanding in the marketplace of ISO 20022 and what it takes to implement the new XML messages. For

example, numerous third-party application vendors are already demonstrating readiness to handle the ISO 20022 proxy voting messages – including middleware providers and suppliers of solutions for corporate actions processing. Your SWIFT account manager can provide details of the vendors that are ISO 20022-ready. You can also stay on top of all proxy voting related progress and developments on swiftcommunity.net, in the Proxy Voting & Shareholder Meetings community.

In another powerful boost to adoption, the leading proxy agents – Broadridge and RiskMetrics – are thoroughly supportive of ISO 20022.

As Elizabeth Maiellano, senior director, international investor communications,

Broadridge, says: “The SWIFT Proxy Voting solution provides eight messages that offer a standard way to communicate the information required for any proxy meeting in any market. If each entity in the proxy voting chain utilises the ISO20022 certified messages, then the process easily becomes more efficient and cost-effective. This combination of improvement has the ability to lengthen the time available to make a voting decision, thus ensuring greater participation by informed investors.”

Adds Les Turner, head of GPD vote operations at RiskMetrics: “ISO 20022 messaging for proxy voting offers the opportunity for everyone in the process chain to really streamline vote processing globally, and could be the answer to cutting cost, reducing risk and pushing deadlines closer to the meeting.”

Obviously, there is more to be done – as Turner continues, not least to “ensure that issuers (or more probably their agents) are also on board so that investors are able to receive vote confirmations and meeting results” – and the fact remains that this economic environment is a difficult one in which to find budget for investment in new automation projects.

However, the risk, transparency and regulatory imperatives for increasing the efficiency of the proxy voting process cannot be argued with, nor can asset servicers afford not to meet customer demand for improvements in this area.

SWIFT’s Proxy Voting solution is ready and available to help asset servicers meet this challenge. As Julie Wang, vice president, Shareholders Affairs Department at the Taiwan Depository and Clearing Corporation, puts it: “ISO 20022 is the brighter future for proxy voting. The true generation of STP is coming.”



ISO 20022 is the brighter future for proxy voting. The true generation of STP is coming.

*Julie Wang,
vice president,
Shareholders Affairs Department,
Taiwan Depository and
Clearing Corporation*

SWIFT's Derivatives solution reduces customers' costs and risks

With FpML messaging over SWIFT for derivatives notifications a year into live operation, early adopter customers are reaping significant benefits

In the year since the first live Financial Products Mark-up Language (FpML) messages were sent over SWIFTNet, SWIFT's Derivatives solution has progressed apace. All eight pilot firms (four investment managers and four custodians) are now live, and the use of SWIFT to exchange trade notifications in standard electronic formats is enabling these firms to eliminate faxes and significantly reduce their costs and risks.

The successful launch of the derivatives solution marked the culmination of a two-year process during which SWIFT, in collaboration with customers and its partner the International Swaps and Derivatives Association (ISDA) (which spearheads FpML), resolved a number of challenges to meet a real market need for automation of a historically very manual, high-risk activity.

In spite of the global financial crisis and its impact on derivatives volumes, this need for automation remains, says Cherie Graham, senior vice president, investor services & markets at Brown Brothers Harriman (BBH), one of the users of SWIFT's Derivatives solution. "We have seen a drop-off in volumes, but not to the degree that this solution is any less valid," she says. "Large asset management firms that use derivatives still need to automate, as a manual approach is still not sustainable, even with lower volumes. In fact, viewed through the added lens of risk management, there is an extra edge to the business case."

Adds Neil Wright, global product manager for derivatives at State Street: "The demand for the SWIFT derivatives solution remains strong. Though no one can predict the regulatory framework we will end up with, there will certainly be a continued call for transparency, and some of the functionality

SWIFT is delivering is helping to meet the increased need for transparency."

The benefits the users of the derivatives solution are achieving include cost reduction and scalability, says Graham. "The primary benefit we have achieved is improved operational risk management," she adds. "Manually keying in instructions is fraught with risk of errors, where incorrect information could go into an accounting system and be used to strike a NAV [net asset value] for a fund."

Customers of the SWIFT solution can use the industry-accepted standard for derivatives, and at the same time leverage all the benefits of SWIFTNet, while maximising their return on investment in their existing SWIFT infrastructures. As State Street's Wright says: "FpML is the de facto standard for automated processing of derivatives, and it is a natural progression for it to be used by investment managers to advise notifications to custodians. As and when more information can be transmitted in the FpML format, the ability to send it via the secure SWIFT network becomes more of a benefit. We will continue to see the coverage of FpML evolve, and the benefit of sending it over SWIFT is clear."

Indeed, Graham at BBH reckons the combination of SWIFT and FpML has been crucial to secure buy side involvement in the solution. "Prior to this, FpML had been primarily adopted by the sell side, but less so on the buy side," she says. "Dealers used it as a matter of course, but asset managers were not familiar with FpML. Because FpML is XML-based, adoption requires a bigger investment from a buy side perspective. The community needed a clear business case to invest. SWIFT was a game-changer in that

regard: by adopting FpML and putting a stake in the ground, SWIFT gave the format the credibility required to convince investment managers to build towards it as a future standard."

SWIFT and ISDA first forged an agreement to work together in June 2006, so the process of taking the derivatives solution into live operation was clearly not a rapid one. "The length of time it took to get the SWIFT derivatives solution live was related to the lack of standard business processes in this area," says Graham. "When SWIFT pulled the user group together, it was quickly discovered that there were few standard business processes for derivatives, and it was not possible to apply technology in such an environment. Much of the work the group undertook – facilitated by SWIFT – was standardising business processes such as the trade notification procedure for swaps. This was time very well spent to ensure we were not automating non-standard processes."

These users of the derivatives solution agree that there is more work to do if the industry is to reap the full benefits of FpML messaging over SWIFTNet. "There remain gaps in terms of the number of investment managers using FpML," says Wright, "and we know from our investment management outsourcing business in which we act as a middle office and generate these instructions that there are also custodians not yet ready to receive them. However, we are certainly already seeing benefits on both sides." More uptake is needed – and the catalyst for that should be "that everyone should be pushing in the same direction", he says. "The challenge is that everybody's at a different stage, and given all the other work going on, it's understandable that firms have different priorities."

Graham adds that the solution needs to be extended to cover more instruments. "A challenge for asset managers is that many of the derivatives platforms are being rolled out in instrument silos, for example covering some CSDs but not all, which means they need intelligence in their systems to cope with the fact that some instruments are matched in one place and some in another. Investment managers would prefer one infrastructure for all derivatives types," she says. SWIFT's approach is the right one, she adds, "to focus on the high volume instruments first" and then extend the solution further.

Though no one can predict the regulatory framework we will end up with, there will certainly be a continued call for transparency, and some of the functionality SWIFT is delivering is helping to meet the increased need for transparency.

Neil Wright, global product manager for derivatives, State Street

ISSA's asset servicing initiative

Bringing coherence to industry-wide efforts to improve operational efficiency in asset servicing

By *Ranjit Chatterji, global network management head, Securities and Fund Services, Citi*



The International Securities Services Association (ISSA) asset servicing initiative began in January this year, in response to requests from a large section of the association's global membership to work on this area as a priority.

The aim has been to review and distil work being done and recommendations recently issued by other industry organisations around the world in this area, particularly on corporate actions, highlight developments and best practices in specific regions that merit broader dissemination, and arrive at a set of principles applicable across the industry and across regions.

The working group until now has been composed of individuals from four global banks which are ISSA founder members, plus one global broker/dealer. Collectively these represent global custodian, sub-custodian, issuer agent and prime brokerage functions in the industry. Citi is leading the effort, working with Deutsche Bank, UBS, J.P. Morgan and Goldman Sachs.

A first draft of the paper outlining principles and a digest of recommendations has been produced and is now being reviewed by the ISSA Board, which includes SWIFT, the ICSDs, DTCC and other global banks, fund managers, and broker/dealers.

Harmonisation of practices across markets is of course a challenge. Another key challenge going forward will be ensuring that issuers and their agents, including their legal advisors, are sufficiently engaged, and finding ways to ensure that data generated by issuers and their agents is converted to automated and transportable formats for use by the rest of the industry in consistent formats.

The working group now plans to get comments from other industry associations, including the regional CSD associations, ISMAG, The European Joint Working Group, and the Association of Global Custodians (AGC). It is likely that the group will need to be expanded to include a few key individuals from some of these groups or from market infrastructures. A final set of recommendations is expected by year-end.

Picking the right partner

The SWIFTReady Corporate Actions label helps you select the third-party application you need to automate your asset servicing flows on SWIFT

When you decide to standardise and automate corporate actions processing over SWIFT, how can you be sure that any applications you buy from third parties are truly SWIFT-compliant?

SWIFT has long realised the importance of ensuring vendor solutions are aligned with SWIFT solutions, and in October 2008 revamped its existing partner programme to make more customer centric its working relationships with a wide range of regional and global companies, such as application vendors, interface providers, integration experts, connectivity providers and local agents for sales – including by favouring the offering of complete customer solutions for the asset servicing segment.

Within the framework of SWIFT Partner Management, SWIFTReady Solution Providers have one or several SWIFT-certified solution components: SWIFTReady applications, SWIFTReady services or a connectivity offer (interface or service bureau).

Today, there are more than 20 different label categories to recognise SWIFT-compliance of application or middleware products for a variety of market segments in different industries. For each, there is a clear and specific set of criteria for each of the markets and SWIFT solutions that the SWIFTReady application supports. These criteria are SWIFT-specific and re-evaluated on a yearly basis. They are designed to reflect the capability of a product to provide automation in a SWIFT environment. The label granted to an application clearly indicates the market and the year for which the criteria were fulfilled.

The SWIFTReady Corporate Actions label validates and recognises the various corporate actions solutions available to SWIFT customers. This label is aimed at business applications that support SWIFT message creation and understanding, as well as corporate events processing (notifications, calculations *et cetera*). Middleware offerings are out of scope. The label is granted to business applications that adhere to a specific set of criteria linked to the support of SWIFT FIN messages, SWIFT connectivity and SWIFT functionality, as well as a minimum of three happy customers on SWIFT.

During the past two years, SWIFT has been strengthening certification around one particular aspect – market practice compliance – which is a capability of high relevance to any users involved in corporate actions processing. In order to be awarded the 2009 SWIFTReady label, corporate actions applications should demonstrate compliance with market practices for the top 20 most frequent corporate actions events and for up to 10 different countries. During May and June, SWIFT tested the four applications awarded the label this year for market practice compliance before granting the certification.

The SWIFTReady Corporate Actions label has become an industry-recognised reference tool for customers. A survey conducted last year by SWIFT Partner Management showed that the label is used as a key requirement in customers' RFI and RFP processes: 80 per cent of respondents confirmed they look at the label as a criterion in the software selection process.

The four companies awarded the 2009 SWIFTReady Corporate Actions label are Information Mosaic (CAMA), Tata Consultancy Services (BaNCS Corporate Actions), Vermeg (MegaCor) and XSP (XSP). Two additional vendors have expressed an interest in obtaining accreditation in 2010. Please go to swift.com to get the latest information about products certified as well as to download factsheets for all providers who successfully completed their certification in 2009.

How can SWIFT help you?

SWIFT's products, services and solutions for asset servicers.

By standardising and automating communications flows, SWIFT enables asset servicers to eliminate error prone manual processes, reducing operational costs and risks and supporting compliance with regulation.

Leveraging SWIFT's community enables asset servicers to increase their reach, and re-using SWIFT to automate additional business flows allows asset servicers and their customers to benefit from economies of scale. By supporting STP for their clients, SWIFT also enables asset servicers to offer industry-leading levels of customer service, helping them to secure new business in a competitive marketplace.

What we offer

- Standardised messaging across the asset servicing lifecycle
- Reduced costs and operational risk through STP
- Improved scale and reach
- Enhanced ability to comply with industry initiatives and regulations
- A platform to improve customer service and grow your business

SWIFT's solutions for asset servicers

Corporate Actions

Reducing the costs and risks of this historically manual, error-prone back office

activity, by replacing proprietary and fax-based communication with standardised electronic messaging.

Data Distribution

Standardising communication flows from market data providers and market infrastructures

Proxy Voting

This solution covers the entire proxy voting lifecycle, delivering STP-ability between the issuers and the beneficial owner, and through all intermediaries such as custodians.

Collateral Management

The connectivity, standards and messaging services for all your collateral management transactions.

Derivatives

Replacing high-cost, high-risk, fax-based communication with standardised electronic messaging over SWIFTNet – specifically for notifications of OTC derivatives trades between investment managers and custodians.

Funds

Enabling standardised electronic communication between investors and their intermediaries, distributors, platforms, fund management companies and their service providers such as transfer agents/registrars, fund accounting agents, trustees and custodians.

Accord

Enables real-time matching and exception handling for foreign exchange,

money market, derivative and securities confirmations.

Messaging

The Simulation Testing and Qualification Service (STaQS) for Corporate Actions enables you to test your Corporate Actions Notification and Confirmation messages (MT 564 and 566) for market practice compliance. The service compares messages to guidelines defined by the Securities Market Practice Group (SMPG), especially the Event Interpretation Grid. More than 38 markets actively contribute to the refinement and improvement of global market practice in corporate actions through the SMPG.

Connectivity

Alliance Lite is designed for firms exchanging fewer than 200 messages per day and went live in Q4 2008. The Internet-based connectivity option provides direct, secure and low cost access to SWIFT, and is available for wholesale distribution by asset servicers to bring their counterparts on to SWIFT. The second version of Alliance Lite, available in January 2010, adds securities messages and is tailored to the needs of investment managers.

At the other end of the connectivity spectrum, the latest release of Alliance Access can handle 1 million messages per day. The main benefits of this new interface for firms with high volumes are: scalability, availability and better integration with your back office.

Services

Our Training team currently runs several courses tailored to the needs of asset servicers: Securities settlement and reconciliation – ISO 15022 messages, Corporate Actions – ISO 15022 messages, Investment funds – ISO 20022 messages and Investment funds – 15022 messages.

For details, please visit www.swift.com

Sibos 2009 – Hong Kong, 14-18 September

In these unprecedented economic conditions, SWIFT is proud that Sibos continues to deliver unique value. Sibos is the only event that brings the entire financial community together in person; where networking and doing business are at the top of the agenda; and where you can contribute to advancing critical dialogue to define future strategies and take collective action that can shape the future of our industry.

In Hong Kong the rich conference programme contains many sessions that will be of interest to asset servicers from all over the world, covering all aspects of the business from corporate actions to proxy voting to reference data. The sessions to look out for are:

XBRL and SWIFT join forces to improve transparency and increase automation Tuesday 15 September, 14:00 – 14:45

A combination of the XBRL technical standard and ISO-based business standards is being touted as a potential solution to the challenge of involving issuers in corporate actions automation. SWIFT, ISO and XBRL are currently working together to bring this solution to fruition, focusing first on an initiative with DTCC, with a plan to roll out the solution to other infrastructures and geographies. What exactly is XBRL and how does it relate to ISO standards? What are the business benefits to be gained by bringing them together and are there other areas of the financial industry in which XBRL can be used to encourage the adoption of standardised, automated processing? What are the initiatives already undertaken, most specifically in the area of corporate actions, where the need to reduce cost, minimise errors and increase transparency is higher than before?

- Mark Bolgiano, president and CEO, XBRL US
- Ranjit Chatterji, managing director, global network manager, securities and fund services, Citi
- Brett Lancaster, vice president, asset services, The Depository Trust & Clearing Corporation
- Malene McMahon, senior business manager, standards, SWIFT

Securities reference data: Identity crisis?
Wednesday 16 September, 9:00 – 09:45
Regulators are placing an increasing emphasis

on the need for more transparency in the financial industry. Good quality reference data is one essential element required to turn transparency aspirations into reality. Does the industry have the quality of data it needs to meet these new challenges? How can more clarity and granularity be achieved for the identification of assets, exposures and parties to transactions? What steps are needed to make the process of obtaining reference data more effective and efficient? Suggestions have been made for an industry utility to hold essential reference data. Is this the best way forward and, if so, how would it work? The session will cover all these questions, provide a grounding in the latest initiatives under way to move the industry forward, and bring you up to speed on SWIFT's own initiatives in the reference data space.

- David Gilmour, global product head, securities services, transaction banking, Standard Chartered Bank
- Paul Kennedy, business manager, reference data, Interactive Data
- Virginie O'Shea, editor, Reference Data Review magazine

Proxy Voting: Raising the standard of corporate governance

Wednesday 16 September, 10:00 – 10:45

Political and regulatory pressure to maintain the highest standards of corporate governance is growing. This requires a proxy voting process that is efficient, transparent and cost-effective. The process in place today can be fraught with inefficiencies. What are the challenges and what risks are they creating? How could standardisation help? SWIFT's Proxy Voting solution provides a robust, transparent audit trail to streamline and improve cross-border proxy voting. So what does the industry need to do to move forward with implementation? This panel discussion will bring together key stakeholders in the proxy voting and corporate governance process to debate the way forward.

- Patrick Cichy, senior vice president, custody and clearing, HSBC
- Elizabeth Maiellano, senior director for institution product and strategy, Broadridge Financial Solutions, Inc
- Julie Wang, vice president, Shareholders Affairs Department, Taiwan Depository and Clearing Corporation

Corporate actions automation: Out of the back office and into the limelight?

Thursday 17 September, 09:00 – 10:00

Market volatility clearly magnifies the risk of errors in the back-office processing of corporate actions. It also intensifies the impact of corporate actions on front-office investment decisions: in a fast moving marketplace, knowing as early as possible about a corporate event that could impact the value of a security becomes essential. Automating corporate actions processing has long been identified as a 'nice to have'. Has market turmoil pushed corporate actions Straight-Through Processing (STP) further down the priority list as an arcane back office concern or has it given automation for corporate actions a new impetus? In the present atmosphere of crisis, will it be any easier to achieve the crucial engagement of the issuer community in corporate actions STP?

- Paul Bodart, executive vice president, head of EMEA operations, asset servicing sector, The Bank of New York Mellon
- Edwin De Pauw, director, single platform and market harmonisation, Euroclear
- Craig Dudsak, managing director, global transaction services – global custody, Citi
- Goran Fors, global head of custody services, SEB and SWIFT board member
- David Fu, =ager, Shenzhen Securities Information Co. Ltd

Other highlights for asset servicers include:

Who can I trust? The impact of the crisis on securities financing, collateralisation and liquidity management

Tuesday 15 September, 09:00 – 10:00

Standards: Now more than ever

Tuesday 15 September, 09:00 – 10:00

Prime brokerage: The first casualty?

Tuesday 15 September, 14:00 – 15:00

Big issue debate 3: Will transaction banking be the engine for sustainable growth?

Wednesday 16 September, 11:00 – 12:15

Other upcoming events:

14 October, 2009, New York:
3rd Annual Corporate Actions Processing
Financial Technologies Forum LLC

3 November, Brussels
European Operations Conference –
Clearing and Settlement in a New Era
SIFMA Europe

5 November, New York
Corporate Actions Summit – SWIFT office
By invitation