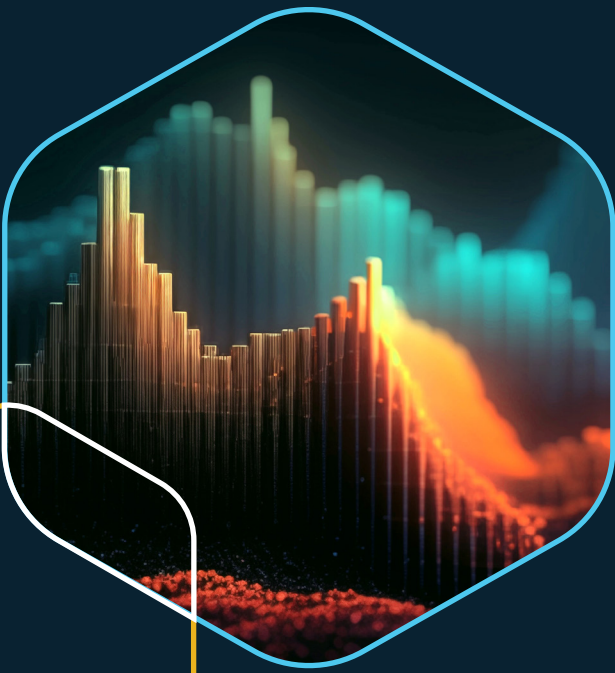


Modernizing Corporate Actions Processing: Enhancing Efficiency and Accuracy



Beta**NXT**

Corporate Actions: The Current Landscape

The corporate actions lifecycle is time-consuming, prone to errors, and costly. Despite the widespread adoption of digital technology throughout the wealth management industry, the processing of mandatory and voluntary corporate actions has remained stubbornly manual. The consequent constraints on efficiency and productivity, and multiple opportunities for error, result in business risks and poor user experiences.

A new era of connected data is enabling the wealth management industry to overcome the systems and data integration challenges that have curbed progress, enabling end-to-end automation of corporate actions processing to finally become a reality.

This paper examines the problems with today's corporate actions lifecycle, who is most affected, and the challenges they experience. It explores the drivers for change and advancements in systems connectivity that herald genuine, end-to-end automation of corporate actions processing.

What are Corporate Actions?

Before diagnosing the problem, we should be clear about the subject. A corporate action is any action taken by a publicly traded company – generally enacted by its board of directors – that has a material impact on the company and its shareholders.

The definition of “material impact” can be subject to interpretation, but the consequences are clear: financial loss, reputational harm, operational setbacks, competitive disadvantages, and legal repercussions. Material events or information are any events or facts that would affect the judgment of an informed investor.

Corporate actions fall into three categories:

- **Mandatory:** Shareholders effectively have no choice regarding participation; these may include changing a company's name, issuing dividend or interest payments, or enacting a merger, acquisition, spin off, or stock split.
- **Mandatory with Options:** The board of directors carries out an action but provides shareholders with a choice of options. This could include issuing dividends but with a choice of payout methods (e.g., stock shares or cash).
- **Voluntary:** Each shareholder decides if they will participate in the action or not, such as in the case of tender offers, optional dividends, or rights issues.

Today's Corporate Actions Lifecycle

Corporate actions that require shareholder participation (voluntary or mandatory with options) follow a specific cycle:

1. ● **The announcement**

The issuer (a public company) announces a corporate action event. There are various means of making an announcement: press releases, regulatory filings, notifications on public websites, or on offering and prospectus documents.

2. ● **Sourcing, setup, and investor notification**

The broker-dealer must gather corporate action announcements from public companies exchanges, transfer agents, and other information agents. These details must then be verified. Confirmed announcements are matched with investor accounts to find those affected. For voluntary actions, they set up offer options for eligible investors, distribute them, and inform financial advisors about what their clients receive. If any updates occur, the broker-dealer repeats this process.

3. ● **Advisor notification**

Financial advisors may be authorized by some of their clients to make election decisions on their behalf.

4. ● **The election**

The investor reviews their election options and makes their choice by the deadline. Investors with questions about the options may reach out to their advisors for guidance. If the investor does not respond in time, the shareholder will not be able to participate or if there is a default option, the default option will be enacted for them. If there is an update to the offer during the election window, the investor must review and elect again from the updated choices.

5. ● **Election capture, transmission, and processing**

Typically, the broker-dealer reminds investors to make their choices before the deadline. The options gathered are then sent as consolidated election instructions to the DTCC and the issuer. Broker-dealers must correctly allocate and reconcile the resulting entitlements to client accounts during settlement, ensuring accurate cost basis calculations. They also need to monitor tax implications, such as income reclassifications and wash sales.

A Problematic Process

Smooth and accurate processing of corporate actions is essential to ensure beneficial owners can exercise their rights and receive due entitlements. However, the information flow between issuers, broker-dealers, financial advisors, and investors is typically highly manual and time consuming. This hampers timeliness and accuracy, leads to operational risks and potential losses for financial firms, and has impacts on stakeholders throughout the process.

At the broker-dealer, manual processes can overwhelm. Corporate actions teams handle numerous data sources and navigate extensive steps for discovery, validation, and cleaning. Manually setting up and distributing offer communications is labor-intensive and must be redone if terms change. Manual election capture complicates tracking and collection, while re-entering data is risky and can cause costly errors. For technology teams, manual workflows are time consuming, prone to errors, and introduce risk: resolving corporate actions processing errors costs broker-dealers an estimated \$1 billion in losses each year.

Poorly designed user experiences and unclear communications create frustration and negative perceptions for investors and financial advisors. Investors may not understand the impact of complex corporate actions on their investments, and outdated user interfaces can result in a poor experience and unexpected outcomes. Advisors may not always have the power to

make election choices for their clients and usually have restricted access to the communications their clients receive, resulting in unexpected calls. Furthermore, the tools available for advisors to handle alerts and make decisions across various accounts are often insufficient.

Pressure for Change

Even a well-managed corporate actions process often fails to meet the accuracy and speed expectations of advisors, investors, and regulators. Retail investors and advisors may be surprised by the amount of manual work involved, as they are used to modern trading and banking apps with intuitive interfaces. In comparison, the outdated software and human effort required for corporate actions seem antiquated.


Existing solutions fail to achieve true end-to-end automation. Broker-dealers often use multiple systems with inconsistent structures, leading to fragmented data and integration challenges. As a result, manual processes remain necessary – and the situation has endured for so long that its deficiencies have become normalized, with back-office teams expanding to fill the gap.

This leaves the industry absorbing losses: in a 2021 study by The Value Exchange, 60% of firms were paying out more than \$2 million each in corporate action errors. Accepting these losses as a cost of doing business is no longer sustainable.

What's Taking So Long?

Corporate actions highlight the complexities of handling diverse datasets across various markets, institutions, and regulations. While industry groups have pushed for data standardization to boost automation, adoption remains slow and uneven despite recognizing the issues and costs of manual processes. And the situation is set to become increasingly challenging in the foreseeable future:

- **Growing volume of events:** Currently, 3.7 million event announcements are made in the US every year. This number is predicted to grow with rise the of investor activism, which hit an all-time high in 2023.
- **Burden and risk of manual processing:** Globally, it is estimated that 46% of event data is published and received manually. Downstream from issuer announcements, many broker-dealers still struggle with spreadsheets and paper forms.
- **Lack of standardization in announcements:** While there are ongoing industry efforts to standardize event data (ISO 20022), without regulated requirements for announcement formats and channels, broker-dealers are left to source corporate actions and interpret their implications.
- **Shortening of settlement window to T+1:** As post-trade operations and reconciliations now must happen in half the time, automation and acceleration become even more critical.



In the face of internal resource limitations and mounting external pressures, automating corporate actions is a must.

Are There Any Solutions?

Although there are solutions available to automate corporate actions, they present unique challenges. A number of leading vendors provide “end-to-end” solutions, but these are frequently based on legacy systems that have been integrated or extended. This results in further complications, such as:

- **Inconsistent data standards:** Older technologies may use data formatting standards that are not compatible with other systems. This can hinder establishing the data quality needed for true end-to-end automation, especially across multiple organizations and systems.
- **Low development priority:** Vendors often bundle their corporate actions solution with larger software packages, which tends to make them a low priority for development. So, deficiencies and incompatibilities can persist.
- **Disconnected relationships:** Some solutions aim to help by providing automated notifications to investors. However, these cut advisors out of the loop, leading to knowledge gaps and avoidable confusion. This can undermine advisor and investor relationships.
- **Outdated user experiences:** Legacy software tends to deliver outdated user experiences, which create negative perceptions of advisors and broker-dealers and can be costly to maintain.
- **Lack of operational insight:** Technology experts build vendor solutions, but many firms don't have the operational knowledge to understand the unique back-office challenges and their effects on retail investors and advisors. This gap can result in issues that clients struggle to communicate or vendors to fully grasp.

Corporate Actions and Connected Wealth

BetaNXT was formed with a vision – our Connected Wealth strategy – to systematically resolve the problems of disjointed data and manual processes that create risk, increase costs, restrain innovation, and hinder wealth management industry growth.

Working in partnership with many of our clients, including some of the largest brokerages, mutual funds, and corporate issuers, we're building an ecosystem where the data that defines and describes a client's wealth is interconnected and aggregated.

Connected Wealth is a substantial undertaking and will take time to deliver in full. However, the scale, significance and data integration challenges of the corporate actions management process made it an early target in our agenda to translate our strategy into integrated capabilities that combine the technology and talents of leaders in investor communications, securities processing, tax reporting and cost basis processing. Our integrated systems, unified service, and real-time data capabilities enable us to deliver an end-to-end solution that others cannot match.

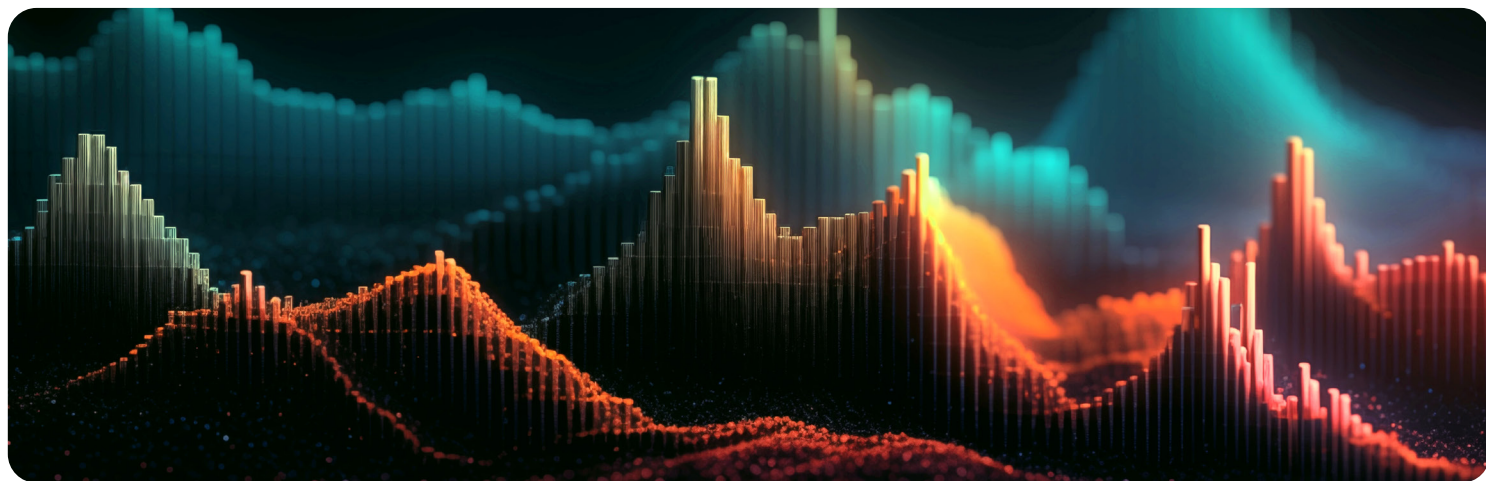
Addressing That Problematic Process

With BetaNXT CastX, a broker-dealer's corporate actions team gains access to one standardized source of validated data, removing the need for manual searches. Automated offer setup lets brokers review and approve—rather than create—investor communications, and real-time updates automatically generate new ones for review. Automated election capture and submission through ISO 20022 reduces risk and boosts efficiency, while integration with back office operations streamlines workflows and settlement. Additionally, for technology teams, end-to-end automation eliminates manual processes, simplifying workflows for faster, more accurate processing and more efficient operations. Flexible configuration and easy integration with other solutions speeds up deployment.

A modern user interface improves the experience for investors, advisors, and broker operations teams. Investors benefit from clear, well-designed communications and an intuitive web portal, with automated email confirmations including election details and confirmation numbers. Advisors gain real-time insight into client communications through a dashboard and custom daily email summaries. Simple election capture tools allow easy elections across discretionary accounts, with both individual and bundled options available. Broker operations teams can clearly see event data and manage exceptions, enabling them to work more efficiently and accurately. An intuitive design streamlines workflows, facilitating quick issue resolution, compliance management, and seamless scaling as volumes increase.

See CastX in Action

Contact us today to arrange a demonstration of BetaNXT's capabilities and end-to-end corporate actions solution, tailored to the technology and demands of your business.



Sources:

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² <https://www.spglobal.com/marketintelligence/en/news-insights/blog/investor-activism-campaign-volume-reaches-new-record-high-in-2023>

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About BetaNXT

BetaNXT powers the future of connected wealth management infrastructure software, leveraging real-time data capabilities to enhance the wealth advisor experience. Combining industry expertise with the power of our proven Beta, Maxit and Mediant businesses, we are focused on solving our customers most demanding integration challenges with flexible, efficient, connected solutions that anticipate their changing needs. Our comprehensive approach reduces enterprise cost, streamlines operations processes, increases advisor productivity, and enhances the investor experience.

Together with BetaNXT, wealth management firms are transforming their platforms into differentiating assets that enable enterprise scale and stimulate commercial growth.

For more information, visit betanxt.com

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