

CAPCO

ISO 20022:
UNLOCKING THE FULL VALUE OF CORPORATE
ACTIONS THROUGH DATA

EXECUTIVE SUMMARY

As the financial services industry moves from SWIFT's ISO 15022 standard securities messaging to an ISO 20022 world for cross-border payments by November 2025, firms' thinking should change with it. This transition from existing MT messages to richer, XML-based MX messages – which took place for Hong Kong's CHATS payment system on April 22, 2024 – will profoundly alter the way in which the information contained within SWIFT messages is processed and consumed.

One of the message types that will be particularly impacted are those relating to corporate actions. By taking a closer look at the corporate actions process itself, service providers may find opportunities innovate and spin up new services thanks to the heightened quality of data that ISO 20022 facilitates.

INTRODUCTION

We are now a year into the MT/MX co-existence period under SWIFT's ISO 20022 transition timeline and financial institutions are now clear on the task at hand. One challenge, as Neil Buchan, SWIFT's Head of Implementation notes, is that ISO 20022 is often seen "as a technology requirement, rather than a business opportunity".¹

Setting aside the logistics of migrating systems that have been in place for decades, retooling processes to consume MT messages itself presents a significant challenge. However, as Buchan implies, there is an opportunity to capitalize on the fact that SWIFT messages – and all their associated data elements – will now be written and shared in the easier to consume XML format. This aligns with and supports many organizations' existing plans or aspirations to become more data-driven and opens new opportunities for innovation.

The rise of data and digitalization has driven a fundamental shift in how financial institutions approach asset servicing – but perennial questions remain that challenge sales and product-oriented personnel of large banking organizations. Specifically, what compelling point of differentiation exists that might persuade an institutional client to move many billions of dollars in assets to a new provider? Given such a transition of assets involves risks along the way – such as realigning systems, reporting and data cleansing, while also ensuring an uninterrupted level of service – there needs to be a clear benefit.

Service providers are already required to review their end-to-end asset servicing model to ensure compatibility with the new ISO 20022 regime. However, rather than simply looking at this as a mandatory technology change, they could look deeper to assess how this fundamental change to traditional processes that are related to SWIFT messages can deliver additional value for their clients – and a solution that clearly sets them apart from other players.

CORPORATE ACTIONS

One of the cornerstone processes impacted by ISO 20022 is the processing of corporate actions and the SWIFT messages associated with the lifecycle of market events. The enhanced SWIFT data quality derived from using the XML format presents an opportunity to look at those events through a fresh lens – and potentially unlock untapped value for clients.

Corporate actions have a role to play in numerous scenarios, the most common and widely recognized being dividend events. Dividend events allow companies to share profits with shareholders to provide an incentive to continue investing in the company. Dividends at first glance may appear simple: the company pays the investor cash for holding stock. However, cash is not the only method by which investors can receive their shareholder benefits, another option offered by issuers being stock in lieu of cash, sometimes at a discount.

Corporate actions valuation vendor Scorpeo performed an analysis of SCRIP dividends during the period 2011 to 2017.² Their study evaluated SCRIP dividends and the elections made by two separate groups: investors and a specific subset of those investors they labelled 'Asset Managers'.

Scorpeo found that these 'Asset Managers' elect sub-optimally at a higher rate than the average investor at 56%, with missed value totalling \$903 million over the sample period (the sample size used does not include all holdings paying SCRIP dividends and is implied to be even higher). The research further showed that non-optimal elections on rights offerings between the years 2011 to 2016 amounted to another \$662 million in missed value from corporate actions. The research does not mention other types of market events, but extrapolating the umbrella of events to include DRPs with a discount for example, would balloon the number higher.

One explanation that Scorpeo attributes to this phenomenon is 'Asset Managers' giving standing instructions to their custodians to always elect cash in the case of optional events (though whether that is an attempt to offload operational burden or merely down to apathy is not explicitly explored in the study).² However, the research does not make clear what other factors are explored, such as cash mandates.



THE POTENTIAL OF ISO 20022

The trend for service providers to look at their business through a data focused lens is accelerating. This creates the ideal conditions for harnessing the information needed to feed a system that can accurately assess and process corporate events in a way that generates maximum value for their custody clients. The enhanced SWIFT formatting and standards being implemented due to ISO 20022 could be key to facilitating this.

The current corporate actions processing environment is highly nuanced and plagued by inefficiencies. This has created an ongoing issue where asset managers elect optional corporate events in a non-optimal way, in the process losing potential revenue and gains for clients. Sub-optimal elections can be monetized and achieve value through securities lending transactions. However, not all custody clients are also securities lending clients, and the revenue from those that are must be shared with the executing broker counterparty. There is also a risk that the client may exit the program, resulting in millions – potentially even billions – of dollars in assets that can no longer be mobilized for these lucrative trades.

Harnessing data allows institutions to strategically analyse, forecast, and respond to corporate actions. This empowers institutions to align with individual client objectives and preferences more closely, transcending a one-size-fits-all approach.

The symbiotic relationship between service provider and asset owner can become even more cemented when the service provider can utilize the client's entire portfolio for corporate event optimization, not just funds that have been flagged for securities lending activity.

The evolution of SWIFT standards can play a pivotal role in facilitating seamless data exchange. Institutions can achieve more advanced insights, analytics, and automated services with the standardized format. Predictive modelling, trend analysis, and risk assessment become more accessible and malleable, adding depth to the services offered to clients.

Corporate actions involve a multitude of data elements, including event details, entitlement calculations, and instructions. SWIFT messages facilitate the exchange of this comprehensive data, ensuring that all parties have access to accurate and consistent information.

Consider the below example to compare an MT message with an XML-based MX message help better understand how to leverage the ISO 20022 message standard.

```
<Document xmlns="urn:iso:std:iso:20022:tech:xsd:CAIN.001.001.01">
  <CorpActnNtfctn>
    <CorpActnGnlInf>
      <EvtTp>OPTI</EvtTp>
      <EvtPrgTp>CASH</EvtPrgTp>
      <IssrAgt>
        <IssrAgtId>
          <Othr>
            <Id>1234567</Id>
          </Othr>
        </IssrAgtId>
      </IssrAgt>
      <RcrdDt>2023-01-01</RcrdDt>
    </CorpActnGnlInf>
    <CorpActnDtls>
      <InstAmt Ccy="USD">1000.00</InstAmt>
      <CorpActnDtls>
        <EvtDtlsTp>CASH</EvtDtlsTp>
        <GrossAmt Ccy="USD">1050.00</GrossAmt>
        <PmtDt>2023-01-15</PmtDt>
      </CorpActnDtls>
    </CorpActnDtls>
  </CorpActnNtfctn>
</Document>
```

```
:16R:GENL
:20C::CORP//1234567
:22F::CAEV//OPTI
:22F::CAMV//CASH
:98A::ISSU-AM//20230101
:35B:/US1234567890/USD1000,00
:16R:CORPACTU
:22F::CAOP//CASH
:92A::GRSS//USD1050,00
:98A::PAYD-AM//20230115
:16S:CORPACTU
:16S:GENL
```

Looking at this example, we see the following advantages of an XML message versus the MT version:

- **Data Structure and Flexibility.** The MT564 message has a fixed structure with specific field tags – e.g. :16R:GENL, :20C::CORP//1234567 – and a limited set of fields. This means that the message follows a predefined format, and the available fields are predetermined. In contrast, the ISO 20022 XML based MX message is highly structured with nested elements, offering greater flexibility. It allows for the inclusion of additional data elements and extensions beyond the predefined fields. This flexibility enables institutions to capture and represent a wider range of information in the message.
- **Data Richness and Descriptiveness.** The MT564 message often uses codes and abbreviations – e.g. :22F::CAEV//OPTI – which can be cryptic and require interpretation. For example, certain fields contain coded values that need to be looked up in reference tables to understand their meaning. On the other hand, the ISO 20022 XML based MX message includes descriptive elements that provide clear information about the event – e.g. <EvtTp>OPTI</EvtTp>. Instead of relying on codes, the message includes human-readable tags and values that directly convey the meaning of the data. This enhances the richness and descriptiveness of the information exchanged.
- **Data Standardization.** The MT564 message may use proprietary codes or conventions for certain fields, which can vary across different systems or institutions. This lack of standardization in data representation can lead to inconsistencies and challenges in data interpretation and integration. In contrast, the ISO 20022 XML message adheres to standardized ISO 20022 data definitions. This ensures consistency in data representation across different systems and institutions, facilitating seamless data exchange and integration.
- **Data Validation and Error Handling.** The MT564 message may have limited built-in validation checks. It may not thoroughly validate the data against predefined rules, leaving room for potential errors or inconsistencies. On the other hand, the ISO 20022 XML based MX message includes standardized validation rules. These rules define the acceptable formats and values for each data element, facilitating the detection and handling of errors during message processing. The standardized validation rules enhance data quality and reliability.
- **Data Enrichment and Integration.** The fixed structure of the MT564 message can make it challenging to accommodate additional data or integrate with other systems. Adding new data elements or extending the message requires modifying the existing structure, which can be complex and may not be supported by all systems. In contrast, the ISO 20022 XML based MX message supports easy data enrichment and integration. Its flexible structure allows for the inclusion of additional data elements without disrupting the existing message format. This makes it suitable for handling complex corporate actions data and integrating with other systems or processes.
- **Data Lifecycle and Tracking.** The MT564 message lacks built-in features for tracking the lifecycle of the message and corporate action events. It may not provide mechanisms for recording the status or history of the message or the events it represents. The ISO 20022 XML based MX message includes elements specifically designed for tracking and managing corporate action events. It allows for the inclusion of timestamps, status indicators, or other relevant information that can be used to monitor the progress and history of the events represented in the message.

THE NEXT STAGE OF DATA INTEGRATION AND ASSET SERVICING

With SWIFT messages moving to an XML based MX format, a unique opportunity presents itself for asset service providers to capitalize on the market wide change that will fundamentally change the way providers interpret and process the information contained on corporate event notifications. Beneficial owners whose funds have traditionally elected sub-optimally would generate additional alpha on their funds that trickles down to their underlying investors. The combination of existing advanced lending systems – that can consume and reconcile market information alongside historic custody corporate action election data – and the power of ISO 20022's MX messages would provide the tools needed to identify profitable corporate events that were previously mis-elected.

It would give financial institutions the information they need to identify and reach out to clients who have previously been taking the sub-optimal election and democratize the value that was previously only achieved through stock dividend arbitrage and further integrating them into the institution's eco-system

The onus then falls on the service provider to devise an innovative way to align their existing businesses, navigate the regulatory framework, and connect the vast swathes of data that exist within them to make this reality possible.

The provider would need to begin by doing a deep dive analysis into the historical holdings of their largest clients the value missed by electing sub-optimally, a more in-depth analysis would also then calculate the fees paid to brokers during dividend arbitrage of these same trades.

A look under the hood of the existing asset servicing infrastructure would then need to be done to ensure the flow of the information contained in the XML based MX message would cleanly flow from the various systems involved. A full end to end review of the event life cycle in the provider's current model and ensuring all touch points are accounted for is critical.

Once the provider has successfully mapped out the full end to end lifecycle of a corporate event through all the systems and teams involved, they can then begin their TOM design and align what is needed to process a corporate event that has elected sub-optimally. Challenges such as system integration, regulatory concerns, and client buy-in await.



CONCLUSION

A holistic integration of offerings by an asset servicing provider such as that mentioned above requires key components before implementation.

The provider needs to have a custody data repository of cleansed readily accessible data that can be harnessed for ease of analysis and extraction, a best in class asset servicing operating model that can be integrated with XML based MX messages and the buy in from multiple business units already advancing their own initiatives and facing their own unique challenges.

If a financial institution can meet these challenges, they can position themselves as a clear market leader in the asset servicing space and offer a unique value add service over their competitors.

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