



The Next Steps

Anyone involved in processing a corporate reorganization event, or corporate action, understands that interpreting issuing companies' intentions, as published in a complicated prospectus, is giving the industry fits – and wasting a small fortune.

A Matter of Interpretation

Issuers face direct costs associated with handling inquiries from investors and third parties struggling to glean event details from legal documents that are often hundreds of pages long. And prospectuses are already costly to create and distribute to the appropriate decision maker.

For service providers, interpretation risk leads to operational risk and potential liabilities for delivering incorrect information to investors.

At the end of the chain, investors have little time to take action on the conflicting information received from various suppliers. Even if key details are common across the board, interpretation in the presentation of these details can render straight-through processing impossible—negating the fortune spent on systems implementation, as well as the efficiency promised as a return on the investment.

Addressing the Problem

Industry organizations have published white papers decrying the problem and suggesting the solution is a standardized summary of key event details published by the issuer along with the legal prospectus governing the event. The Asset Managers Forum and the Association of Global Custodians are two prominent organizations that have researched and published these ideas, and J.P. Morgan participated in both of those efforts.

The industry is taking notice and taking action, and the U.S. and European markets, where changes are afoot, must evolve toward the same standards and market practices. The good news is the changes are already in progress.

In the U.S. market, the Depository Trust and Clearing Corporation (DTCC) is working with extensible business reporting language (XBRL) in dialogue with industry participants and the United States Securities and Exchange Commission (SEC) to define a method for tagging prospectus data. XBRL is a nonprofit worldwide consortium cooperating to build an XML-based reporting language in accordance with each country's accounting rules, or with other reporting regimes such as banking regulations.

U.S. companies are already familiar with XBRL, as it is used for the SEC's Electronic Data-Gathering, Analysis and Reporting (EDGAR) system. For more than 10 years now, U.S. domestic public companies have been required to file various forms electronically via EDGAR, with its database available free of charge online and via FTP.

Across a large geographic separation—yet one crossed in milliseconds to execute a trade—Euroclear is advancing its plans to create and implement ISO 20022 messages for issuing companies and agents to communicate event details and accompanying processes as part of their evolution toward a common platform for Euronext countries.

Evolving Standards and Extending the Communication Chain

CORPORATE ACTION PROCESSING

ISO 20022 is also an XML standard, and debatably, Euroclear is taking an additional procedural step by suggesting issuer agents message the details to central securities depositories (CSDs). In the United States, it is not clear who will do what with the XBRL-tagged prospectus; but it appears multiple parties will have to interpret the tagged data and create messages, so there is room for concern.

Merging Standards, Converging Procedures

So, it appears the future holds two similar XML standards and two similar procedures. Some suggest it will be relatively easy to map or translate between the two. However, both efforts remain nascent enough to cross-pollinate and move toward a common goal of a single XML-based communication standard and a common practice and process for leveraging this standard. J.P. Morgan is putting some momentum behind this effort.

A first essential step is for XBRL to examine the ISO process and the convergence of other XML standards like FIX, FpML, MDDL and SWIFT FIN with ISO 20022 UNIFI. Convergence with ISO 20022 would ensure that ultimately the standards do not have to be mapped or translated. SWIFT, as the registration authority for ISO 20022, is in discussion with XBRL in this regard.

The next essential step will be for the marketplace to demand closer cooperation, or as some like to say, “cooperation” between DTCC and Euroclear.

These two infrastructures may find themselves competing more directly as markets continue to globalize and consolidate. Competition would be on the basis of service delivered for value, unhampered by subtleties in communication standards and external market processes—in other words, cooperate on common standards and procedures with the entire global marketplace and compete on the service delivered.

Benefits for All Parties

Successful integration of the two efforts will require cooperation of the relevant regulatory bodies, the issuing companies and all subsequent players in the investment chain; but when complete, all parties in the chain benefit.

- **Issuers** have an easier time delivering event details—and perhaps a dramatically cheaper one—when the standard XML summary notification includes a URL link to an electronically delivered prospectus.
- **Suppliers**—whether depositories, custodians, data vendors or other agents—by getting the information from the source, can mitigate the tremendous risk associated with interpreting data and creating the summary investors demand to help track an event.
- **Investors** benefit from additional time to analyze event details and make informed decisions—time currently lost as suppliers interpret information, and then again as supplier-derived information is compared and reconciled rather than processed straight through.

The industry seems to be on the right path, but the time to choose is now: two separate steps forward or one quantum leap? And be ready to think globally and act locally, to let the marketplace know, as well.