



## **ISO 15022 Taking On The Transition**

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**The traditional method of manually processing corporate actions is set to become a way of the past. But introducing Swift's ISO 15022 seems to have its own hurdles. By Stephen Choate, CEO of ValueLink Information Services**

Over time institutions, custodians and data vendors have used many different formats for their corporate actions processing. Due to the complexity of the messaging, the task of interfacing between formats has always been fraught with difficulties. The outcome is that data accuracy is compromised despite the considerable amount of time and resource put into the process. Such errors can be costly and are a painful reminder of the risk associated with high levels of manual input. As the need for greater automation becomes increasingly apparent, Swift has developed the solution in its ISO 15022 messaging format.

The format is designed to encourage straight through processing of corporate actions and relieves the pressure of interfacing and the associated risk of errors. It describes a way of building standardised formats for use within transmitted messages and systems. It is a global initiative for the entire financial services industry. Once implemented, its impact will be significant in terms of financial reputation and relationship risk.

To assist with the process of implementation, the Market Data Provider ISO 15022 User Group (MDPUG) was formed. The objective of the group was to agree a standardised format across data providers for their use of ISO 15022. The User Group was a great success as open discussions were forthcoming and all providers were keen to work together towards a common goal. The result would be an increased potential for automation and the capacity for institutions to select any data provider by breaking the accounting system interface limitations. A Corporate Actions Automation Survey by SmartStream, Swift and CityIQ published in 2003 found that around 40% of firms were reviewing the need for automation, and another 40% had already begun the transition. Yet some firms had already dismissed the idea without even undergoing a review. Why?

### **The Hold-Up**

There are two key obstacles to the automation of events processing. Firstly, there is the issue of data quality. Many firms collect their corporate actions data direct from custodians, spending copious amounts of time comparing information received via faxes, email and telephone, only to find such manual processing continually allows incorrect data to creep in to the works. Introducing STP to this environment would bring little benefit. So before investing

in ISO 15022 comes the need to focus on independent verification of data. Outsourcing to a provider which performs a validation service relieves time and resources in-house, whilst providing the expertise and the means to compare data in detail and to resolve discrepancies.

The second problem arises in making a justifiable business case. Although it is widely acknowledged that automation is the way forward, being able to accurately compare the year-on-year cost of errors to the cost of implementation remains difficult. Some larger custodian banks have admitted to budgeting up to \$4m per annum for such losses, yet this still appears not to provide the incentive to make the spend while they remain pitched in a cost-saving environment.

### **No Pain, No Gain**

Within the back office, attitudes toward automation range from those who are proactively scheduling implementation to those who appear to be brushing the issue under the carpet. Despite it being considered the area of highest operational risk, some firms are still too preoccupied with more “pressing” concerns and have simply turned a blind eye to the consequences of doing nothing. A decision that will surely come to haunt them in the long-term.

ISO 15022 is the next logical step for automation, with many data vendors and custodians already able to interface with the format. Perhaps a final possible barrier is the inability of issuers to provide data in ISO 15022. The provision of issuer data in a standardised format could therefore be the next link in the chain that opens up real movement to the common format and greater automation.

While the availability of vendor solutions is a key driver, automation of corporate actions is not mandatory and will leave organisations to move at their own speed. The transition may only gain pace as a result of significant losses originating from the non-automated parts of the back office. Perhaps data vendors and solution providers must wait on the sidelines for firms to take action, having suffered inevitable losses and so needing to work rapidly to introduce ISO 15022 before the next substantial payout in the name of unreliable data.

*Stephen Choate, CEO of ValueLink Information Services, August 2005*