

Corporate Action Transformation

in South Africa

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Corporate Action Transformation in South Africa

Key Findings overview

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Key Findings overview



The average corporate action team in South Africa has grown by 11% in 2022. In keeping with global trends, we are seeing more pressure on the industry's back offices than ever before – posing an urgent question of how we can build scale into our operating models.

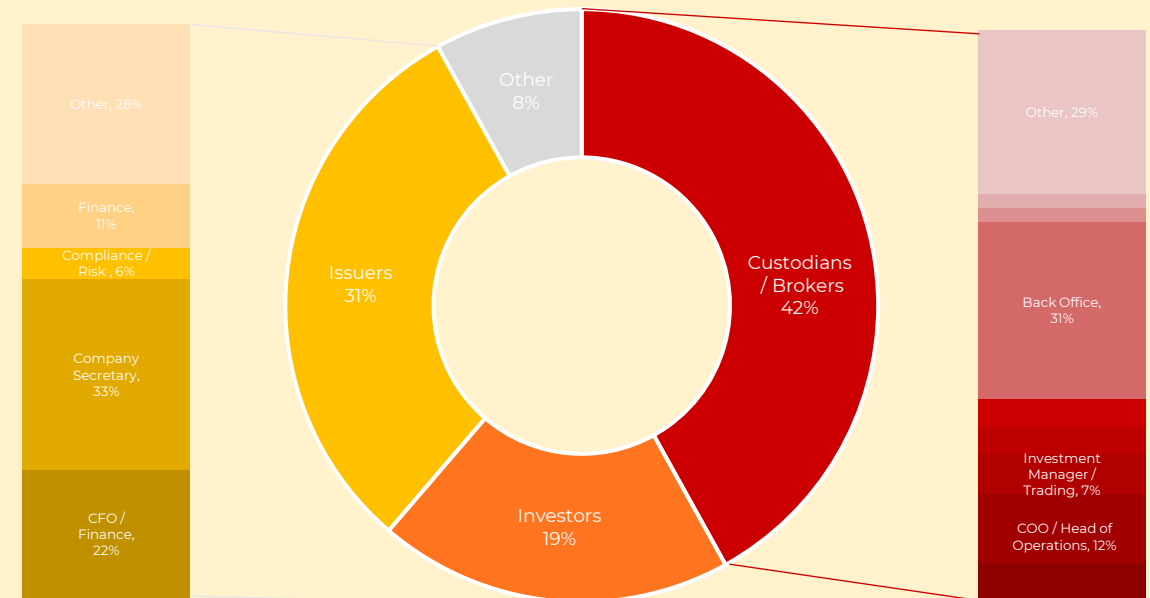
This document summarises the key statistical findings of our industry-wide survey campaign, led by **JSE** with the support of **Strate** – aimed at helping to make the case for standardization and automation of our corporate actions.

We would love to hear your reactions to these findings and so please reach out if you have any comments or questions (to info@thevalueexchange.co)

Who participated in our campaign?

As a truly industry-wide survey, we have benefited from the insights of over **72 organisations across the South African investment-cycle.**

These respondents are broken down as follows:



Corporate Action Transformation in South Africa

Key Findings overview



Corporate Actions Today	Challenges for Issuers	Challenges for Investors	The Case for Change
9 The average corporate action team (in headcounts) in South Africa	39% Of issuers who believe that their event notifications take >4 days to reach investors	66% Of corporate action notifications are manual today	14% A move to golden copy event data would remove 14% of data management costs
47% Of market participants using >2 data sources for corporate actions	54% Of issuers experiencing votes getting lost	x2.7 South Africans view their cost of risk to be 2.7 times the global average	88% Of market participants are seriously struggling to automate corporate actions
29% of market participants experiencing serious issues with manual event processing	60% Of issuers who struggle with poor visibility on shareholder voting	62% Of manual validation is on voluntary events	75% STP improvement expected for issuers in providing logicized event notifications



Corporate Action Transformation in South Africa

Overview



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The human cost of corporate actions: 9 FTE per participant and growing by 11%

Issuers:

The Cost of a Corporate Event

5



headcounts
per corporate
event

Custodians:

The Cost of a Corporate Actions
Team

22



headcounts
per corporate
actions team

Brokers:

The Cost of a Corporate Actions
Team

4



headcounts
per corporate
actions team

Investment Managers:

The Cost of a Corporate Actions
Team

11



headcounts
per corporate
actions team

2%

headcount growth



20%

headcount growth



10%

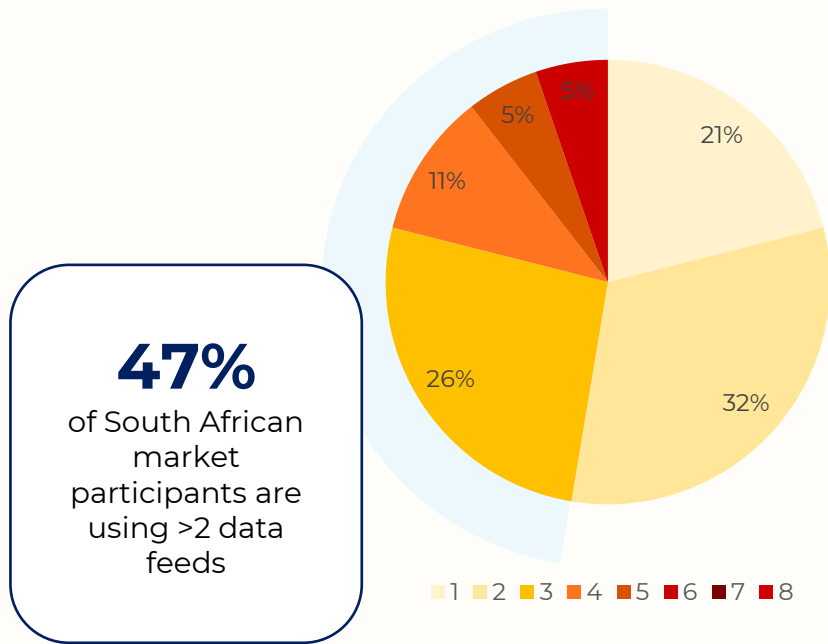
headcount growth



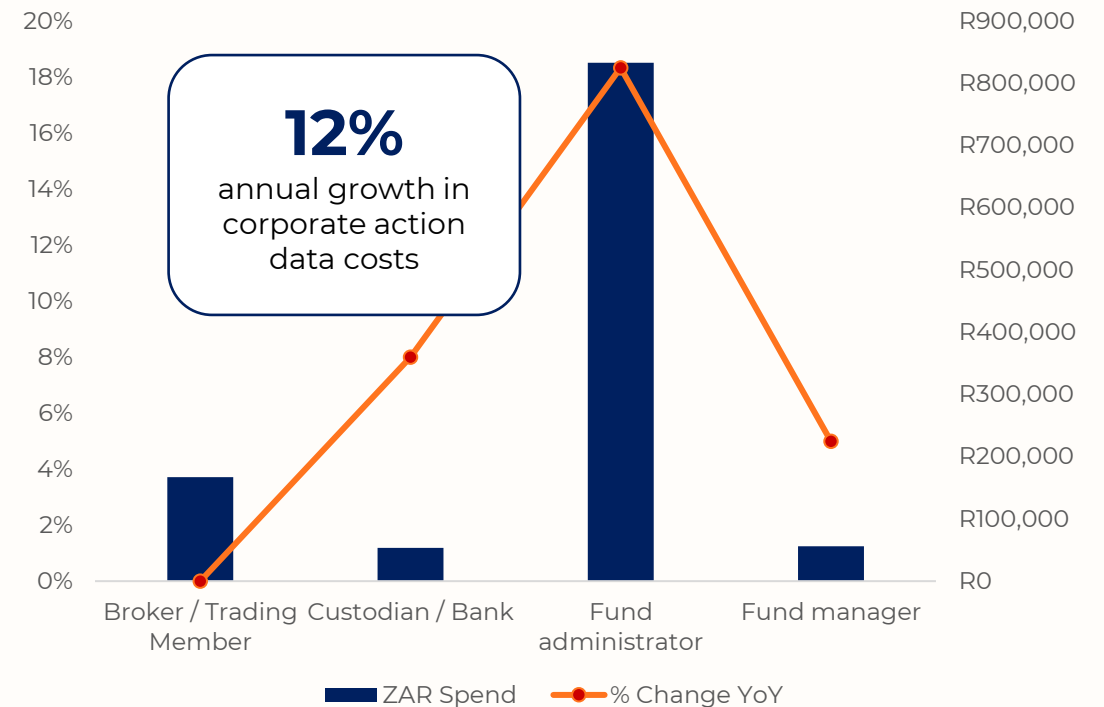
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The growing cost of corporate actions

How many data sources do you currently process today for South African corporate actions?



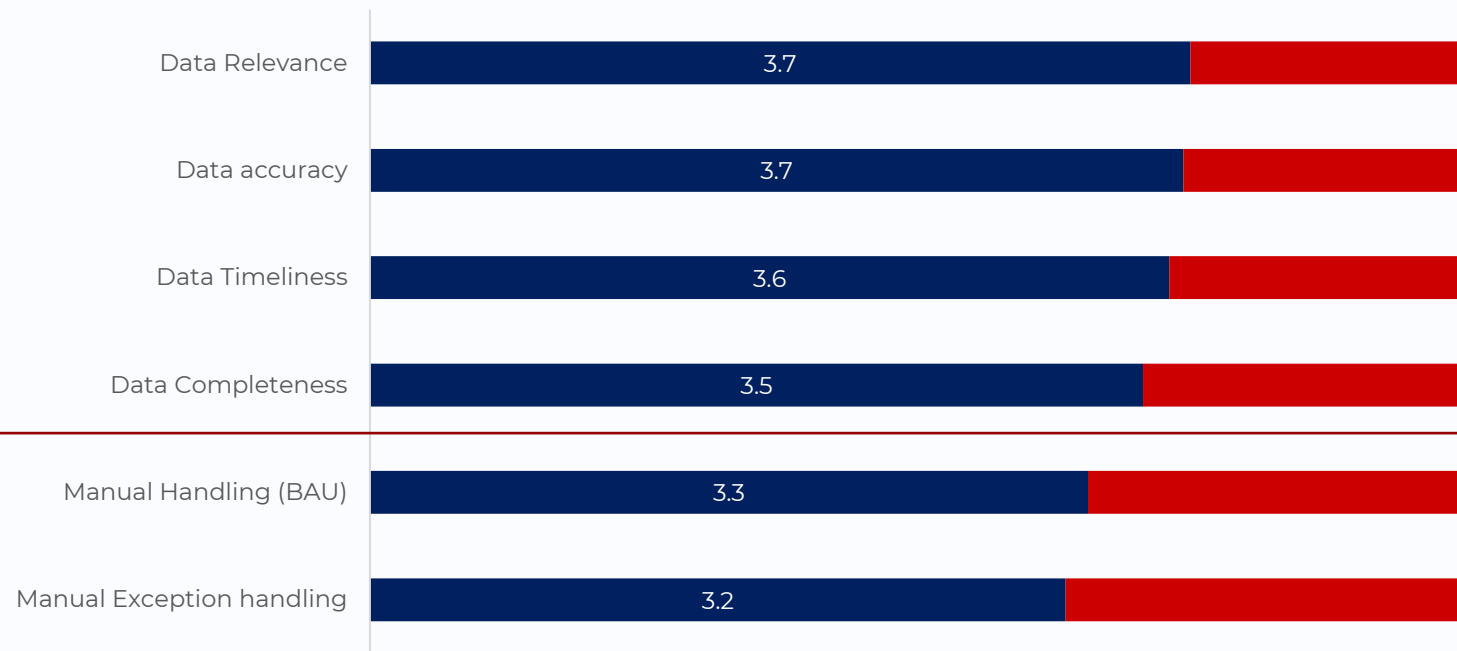
What is your current annual data spend on corporate actions and how is this changing year-on-year?



Corporate Action Transformation in South Africa

The manual burden at the heart of the problem

How would you score your corporate action notifications today?
(Quality of processing, out of 5)



29%

of South African market participants have serious (4,5) issues with the manual nature of their corporate action processing

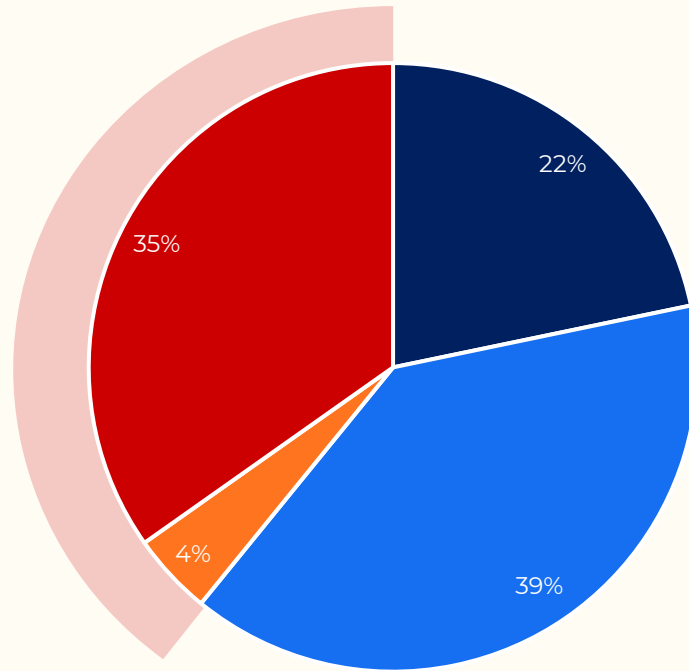
1. Market challenges for issuers



1. Market challenges for issuers

Time to the investor

How long does it take for an event notification to reach beneficial owners?



■ Within 1 business day ■ Within 2-3 Business Days ■ Within 4-7 Business Days ■ Over 7 Days

39%

of issuers believe it takes >4 days for an event to reach beneficial owners

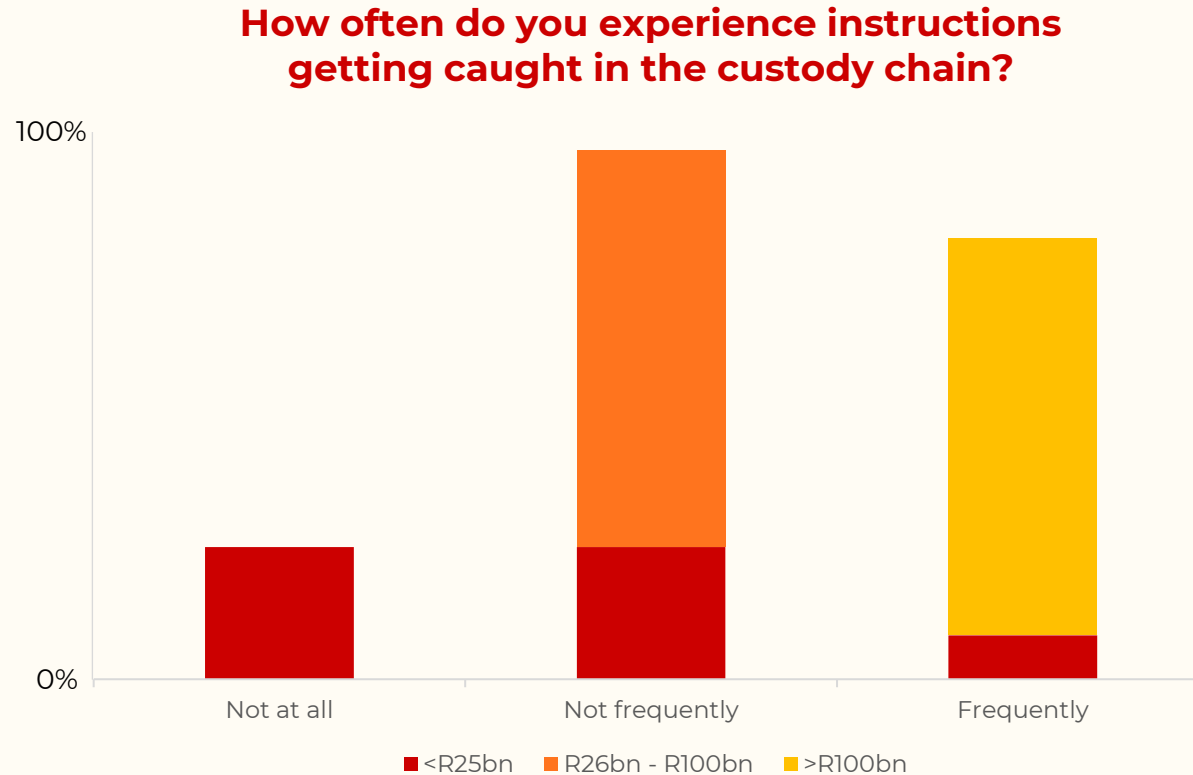
44%

of small-cap issuers (<R25bn) believe it takes >7 days for notifications to reach beneficial owners

1. Market challenges for issuers

Lost data from the investor

54%
of issuers experience
lost instructions



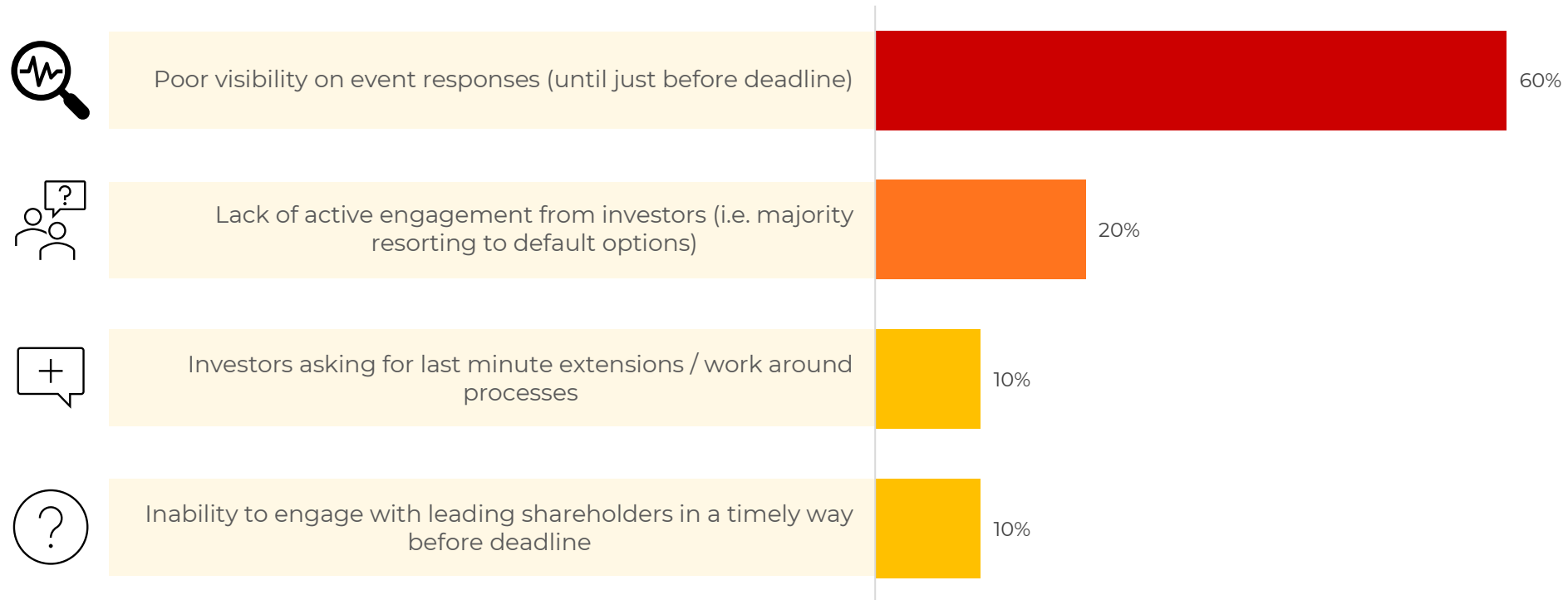
Larger cap

issuers struggle
more often than
small caps with lost
instructions

1. Market challenges for issuers

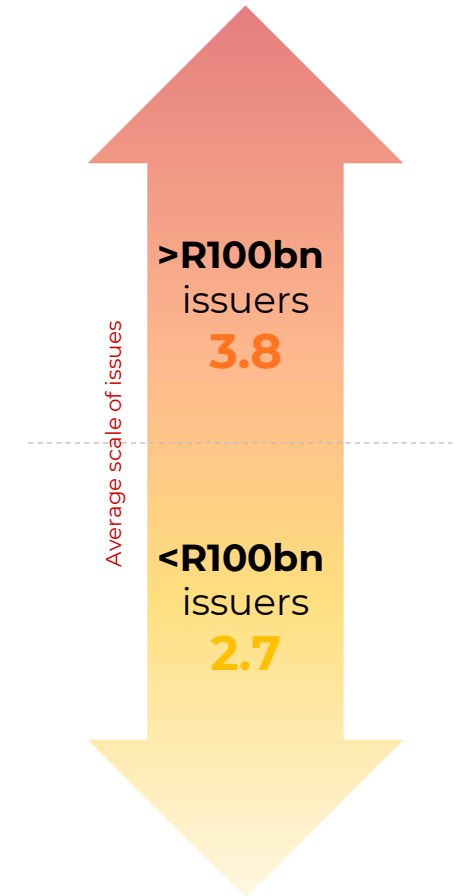
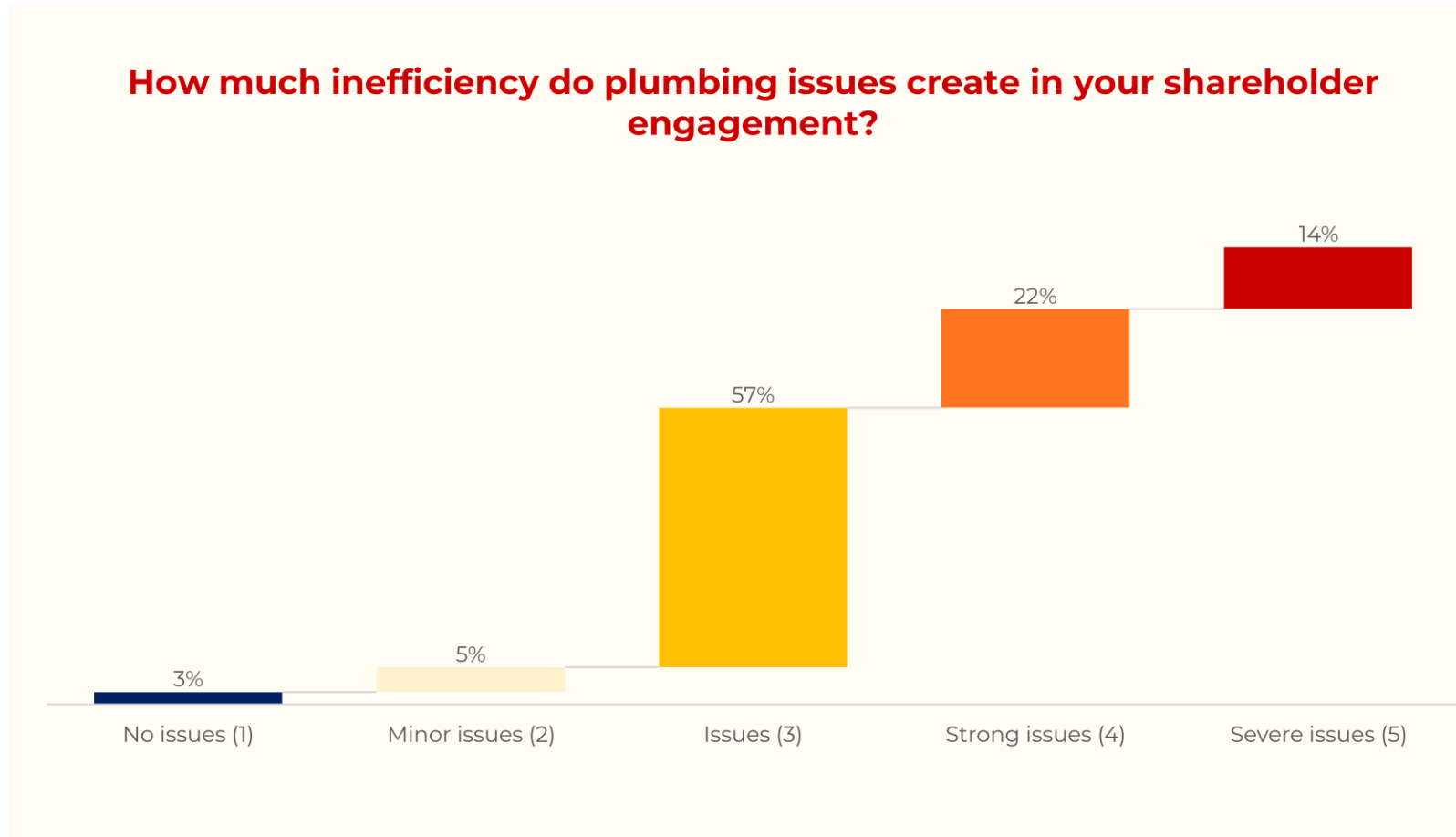
Communications

What other challenges do you face in your engagement with beneficial owners?



1. Market challenges for issuers

92% of issuers are seeing impactful issues in their corporate actions



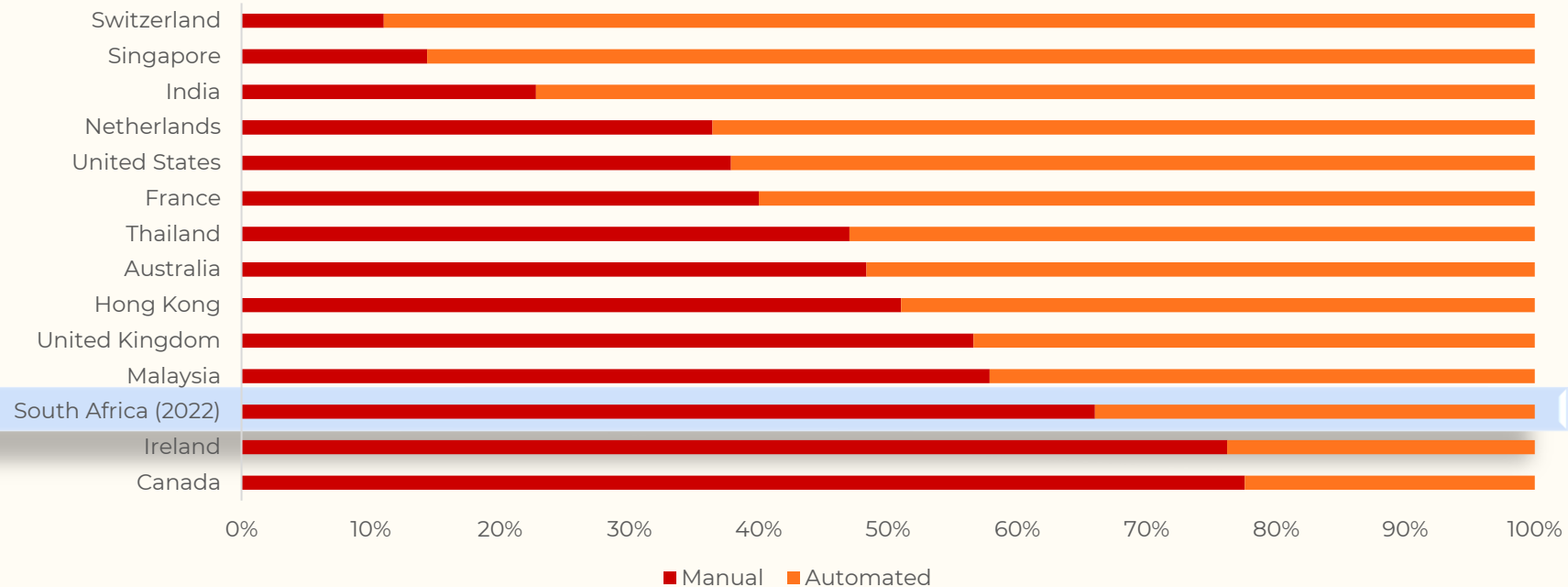
2. Market challenges for investment managers



2. Market challenges for investment managers

South African market automation lags global peers

How do market participants receive their corporate action notifications?



66%

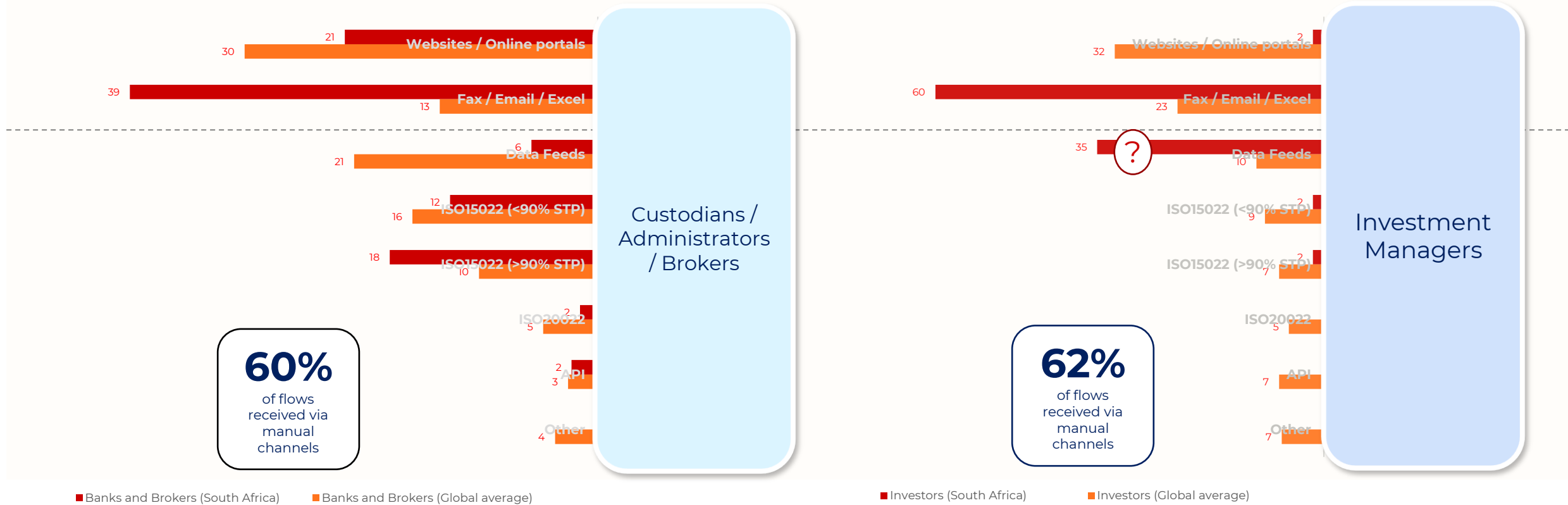
of South African corporate event notifications are received manually (via email, fax or through web-portals)

2. Market challenges for investment managers

A heavily manual data chain

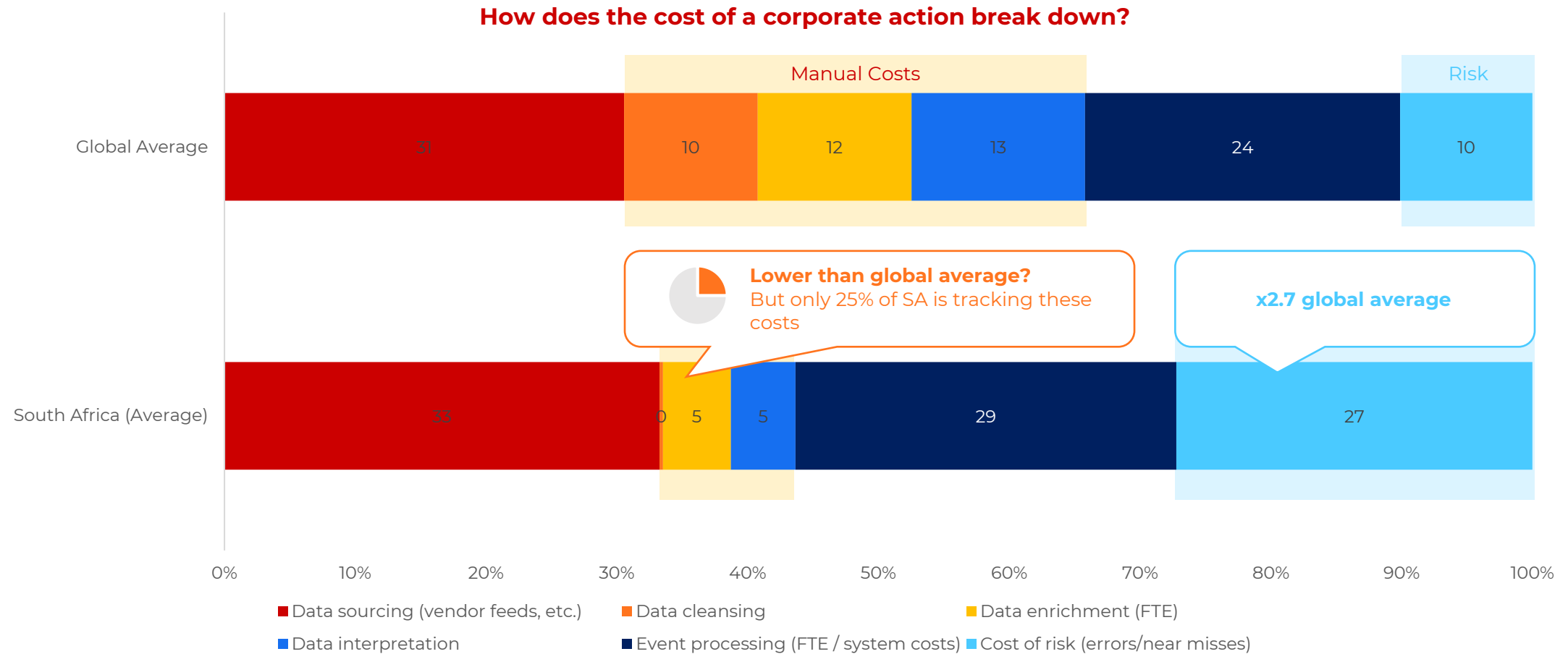
How are we receiving corporate actions today in South Africa?

(Average % of notifications received through each channel)



2. Market challenges for investment managers

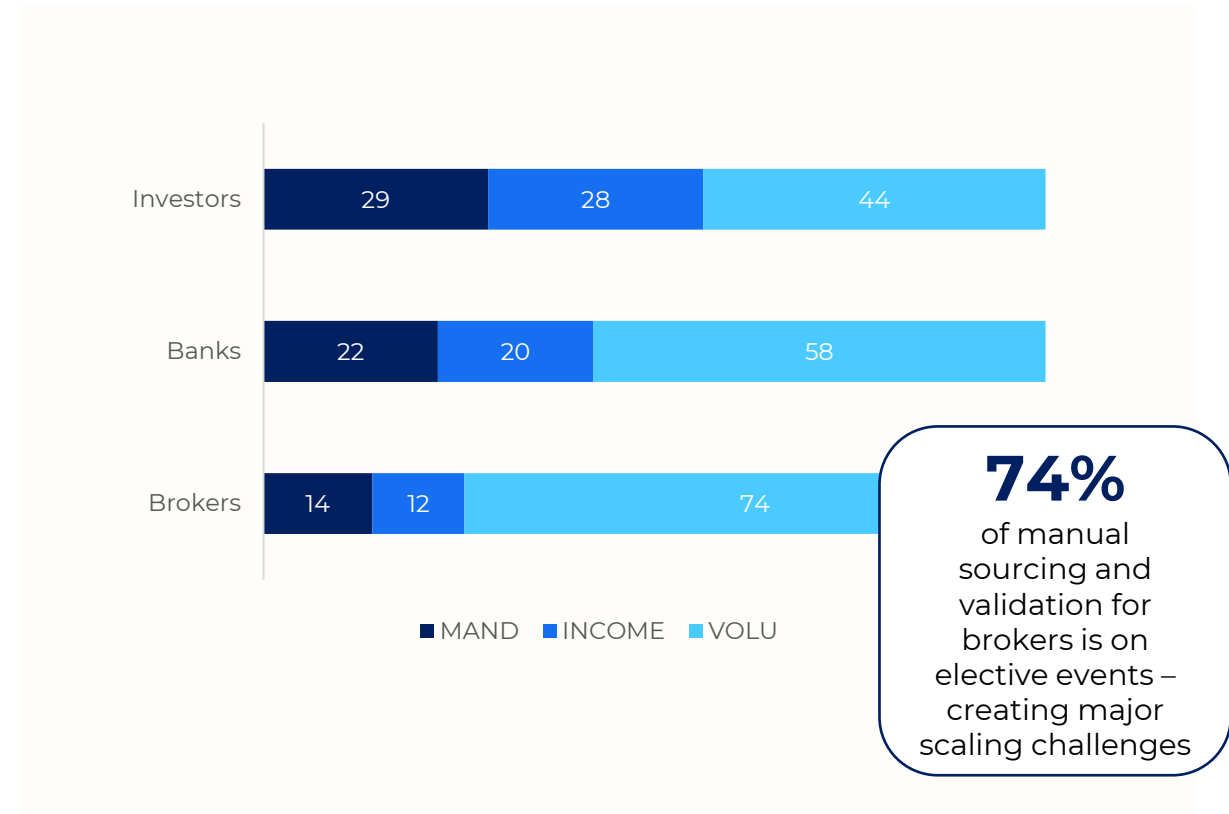
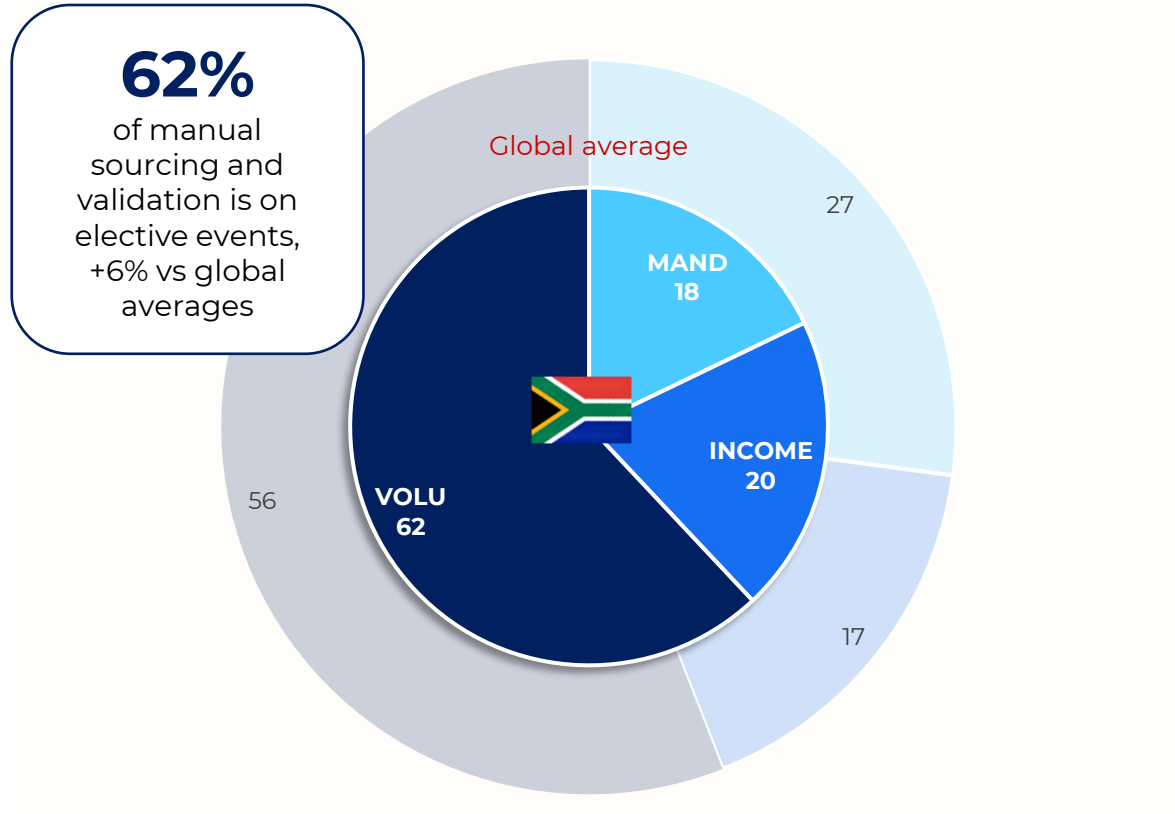
Lower manual costs than global averages? And more than twice the risk



2. Market challenges for investment managers

What's driving the risk? Voluntary events clearly driving the manual burden

How is your (manual) data sourcing and validation effort distributed by type of event?

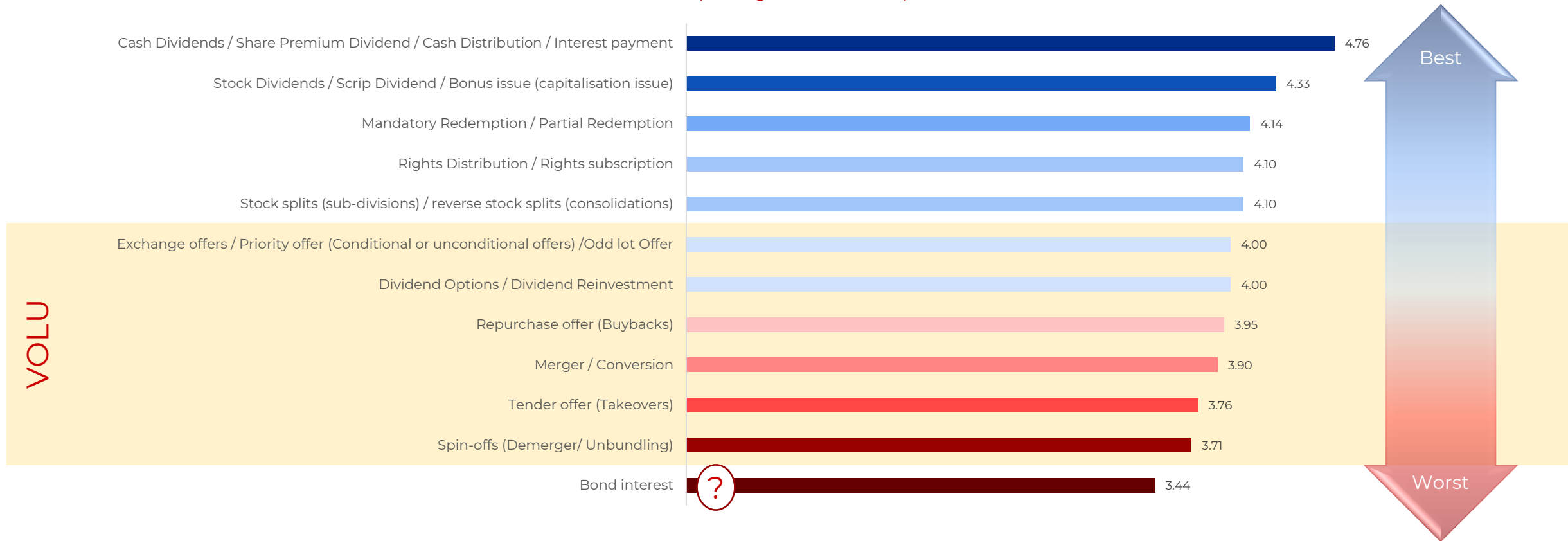


2. Market challenges for investment managers

Spin offs and Tender offers present the most urgent case for change

How would you rate your ability to process your corporate action events today?

(Average score out of 5)



REFERENCE SLIDE

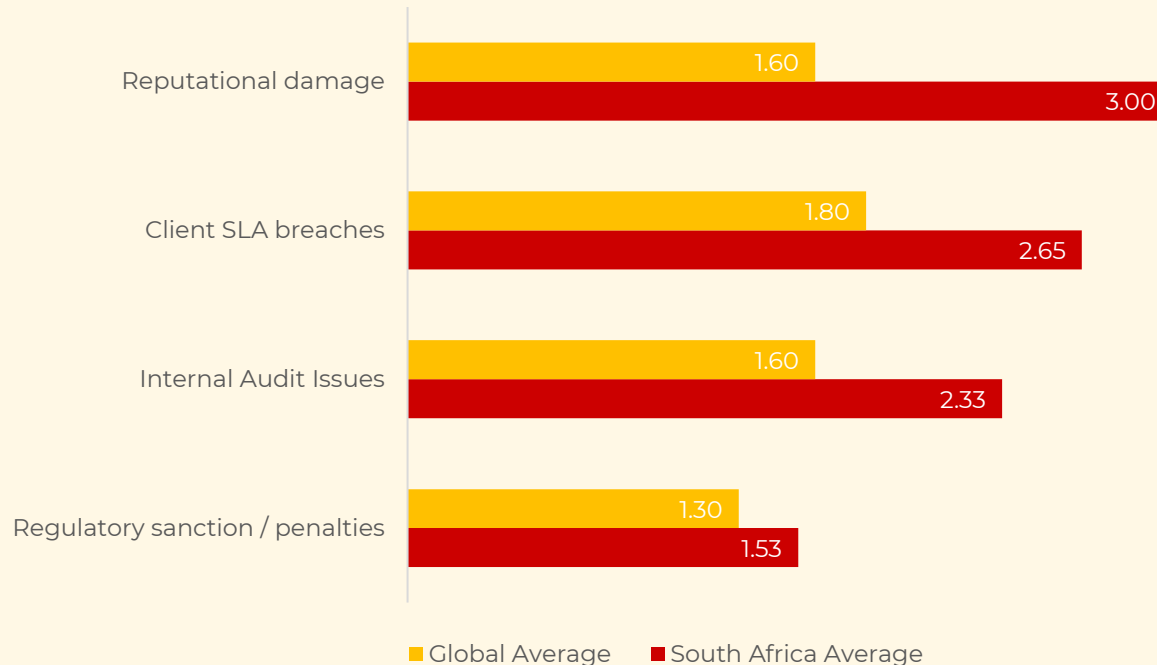
Commentary on event issues

Event type	Commentary
Bond interest	- Bond Interest payments calculated incorrectly on BDA and needs to be manually corrected
Spin-offs (Demerger/ Unbundling)	- Complexity is introduced when disclosure is required at beneficial owner level and allotment is at beneficial owner level, i.e. spreadsheets - Cost price updates not always processed automatically
Tender offer (Takeovers)	- Complexity is introduced when disclosure is required at beneficial owner level, i.e. spreadsheets. Deviation from Standards (Global Market Practice) and local market practice introduces risk and processing challenges - Have too manually remat and remove position on accepted clients. If not done, it poses a risk of client selling.
Merger / Conversion	- Complexity is introduced when disclosure is required at beneficial owner level, i.e. spreadsheets. Deviation from Standards (Global Market Practice) and local market practice introduces risk and processing challenges
Repurchase offer (Buybacks)	Market announcements must specify whether there will be rolling settlement (i.e. multiple events) as this impacts eligibility computation and position management that can impact trade settlement committing
Dividend Options / Dividend Reinvestment	A DRIP event where reinvestments may be scaled back has introduced additional manual processing requirements
Exchange offers / Priority offer (Conditional or unconditional offers) /Odd lot Offer	Market announcements must specify whether there will be rolling settlement (i.e. multiple events) as this impacts eligibility computation and position management that can impact trade settlement committing
Stock splits (sub-divisions) / reverse stock splits (consolidations)	Complexity is introduced when disclosure is required at beneficial owner level, i.e. spreadsheets
Rights Distribution / Rights subscription	Spreadsheet, BOP Reporting
Mandatory Redemption / Partial Redemption	The issue of over and under payments from Issuers impedes entitlement certainty and processing efficiencies
Stock Dividends / Scrip Dividend / Bonus issue (capitalisation issue)	
Cash Dividends / Share Premium Dividend / Cash Distribution / Interest payment	

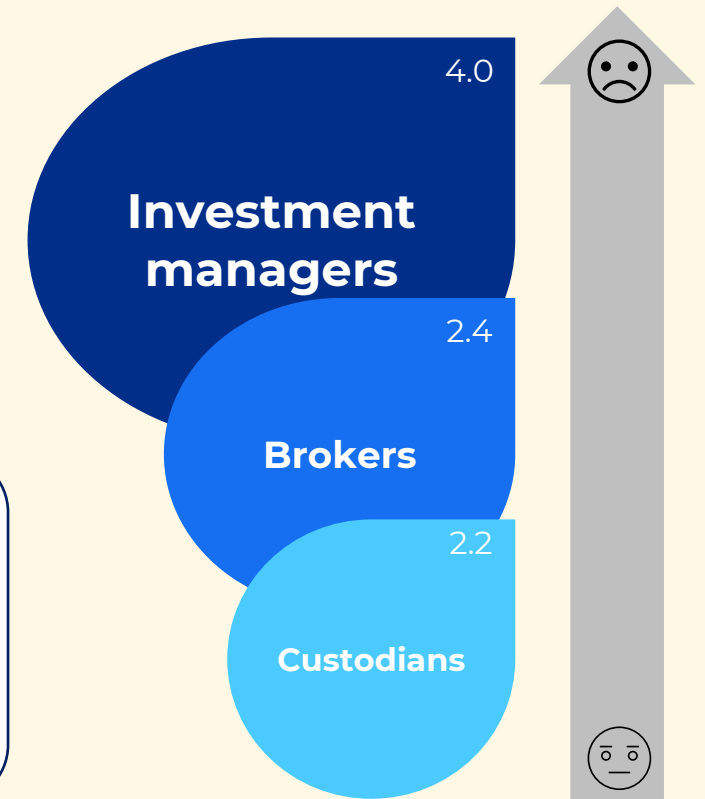
2. Market challenges for investment managers

Corporate action risks are materializing strongly across our businesses – impacting our investments above all

What issues have you experienced as a result of corporate action errors in the last 24 months?
(By impact out of 5)



South African market participants are experiencing **51%** stronger errors than their global peers



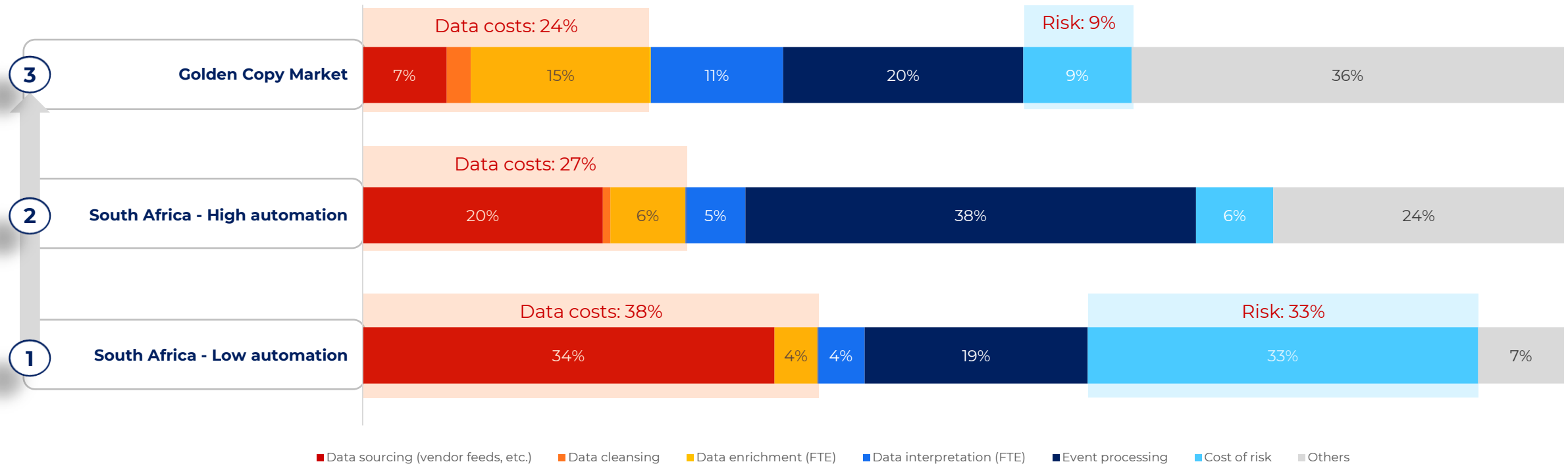
3. The case for market transformation



3. The case for market transformation

A clear case for internal and market automation

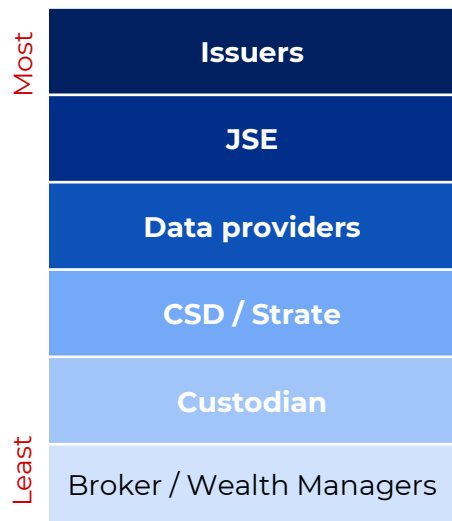
How the cost of a corporate action breaks down – depending on operating model



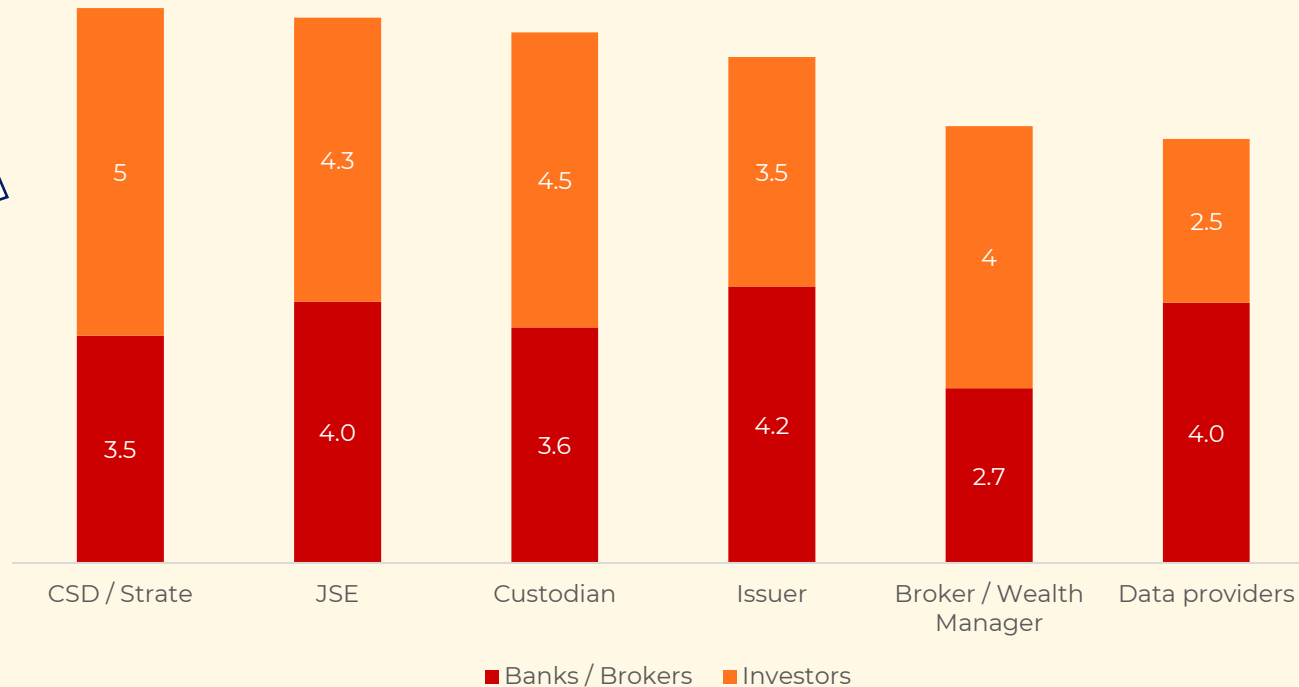
3. The case for market transformation

Market infrastructures play the lead role in driving change

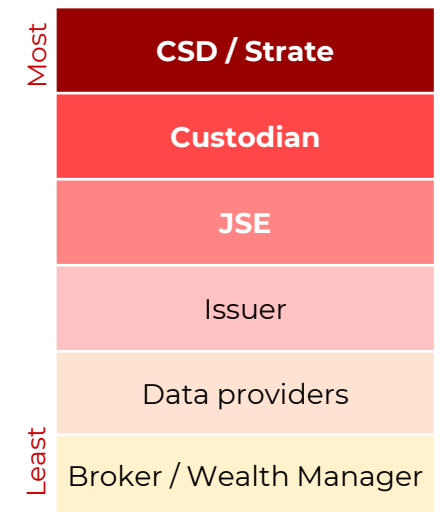
Who do banks and brokers trust most?



Who do you trust most to provide your corporate actions notifications?



Who do investment managers trust most?

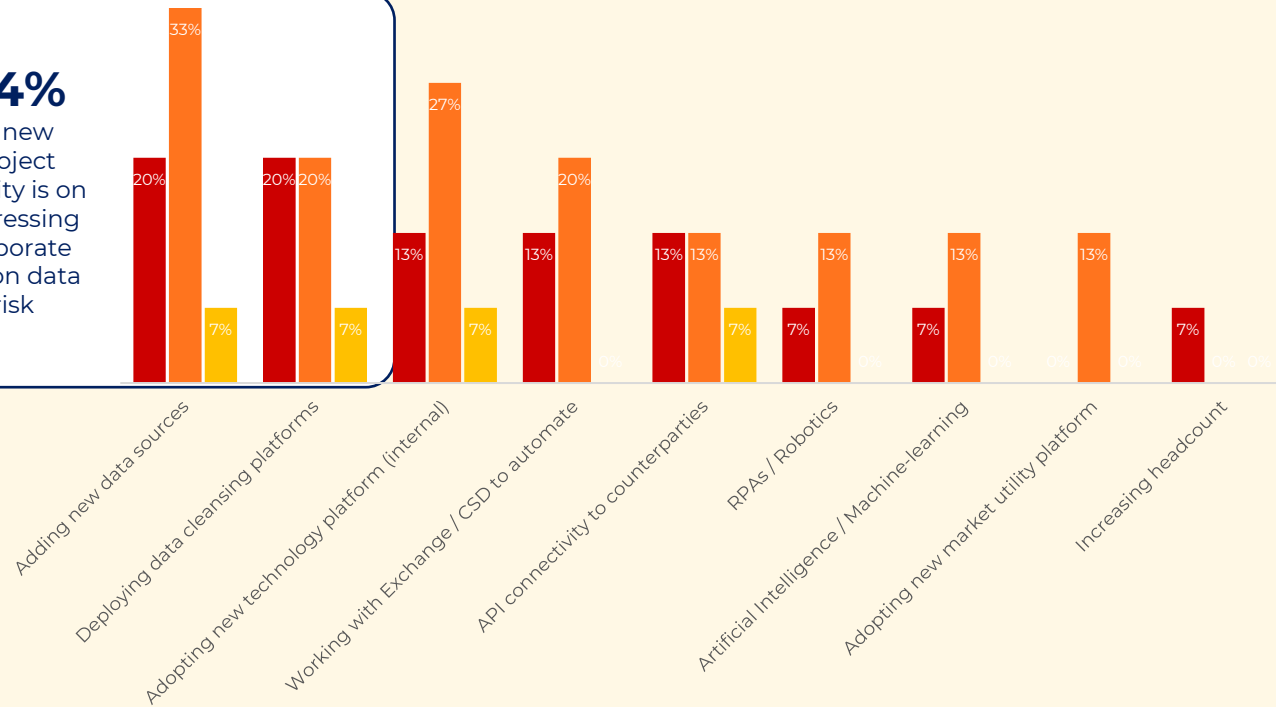


3. The case for market transformation

Market participants are still spending to compensate for data issues

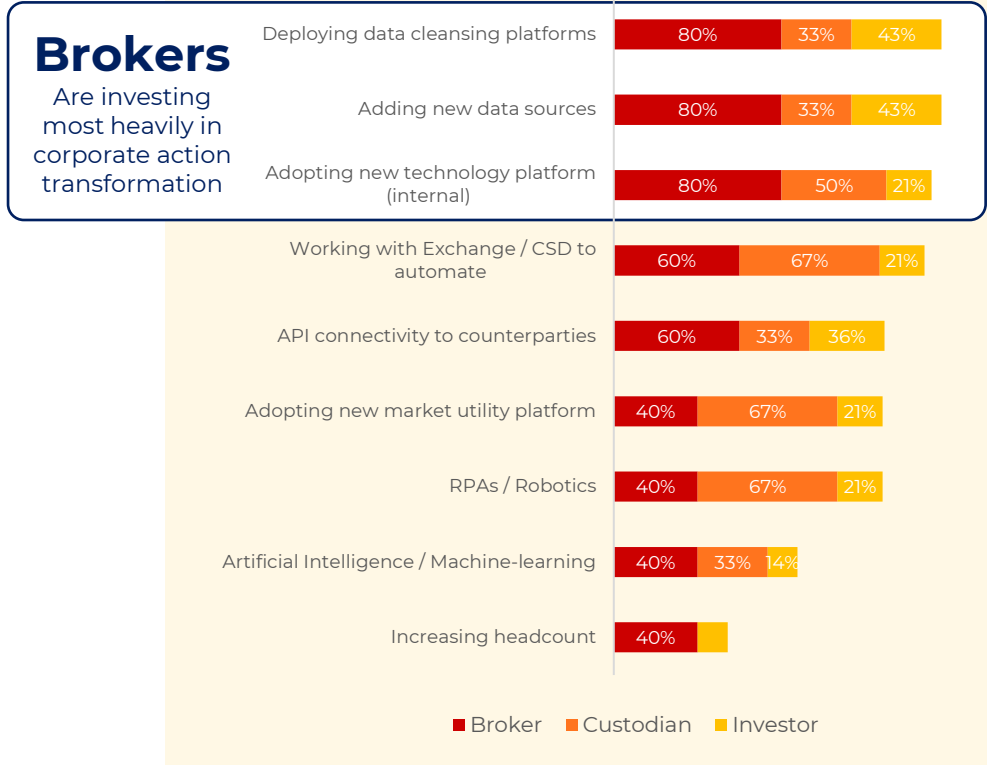
Where are firms investing in corporate actions?
(% of respondents investing in each area)

64%
of new project activity is on addressing corporate action data risk



■ 2022 ■ 2023 ■ 2024

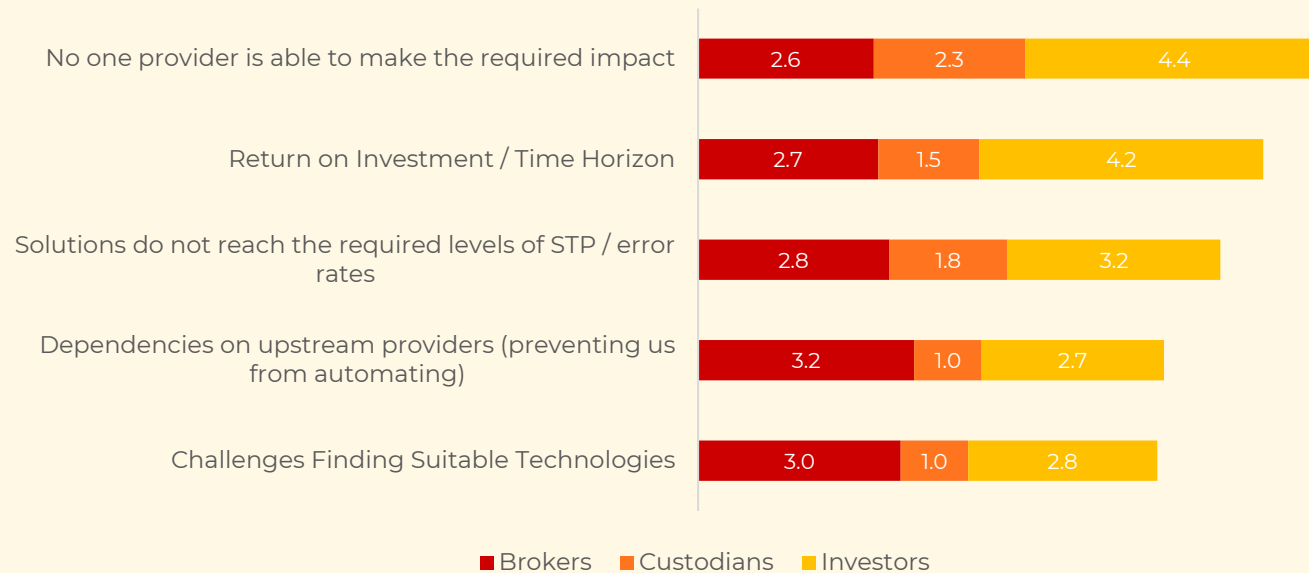
Where is the work over the next 3 years?



3. The case for market transformation

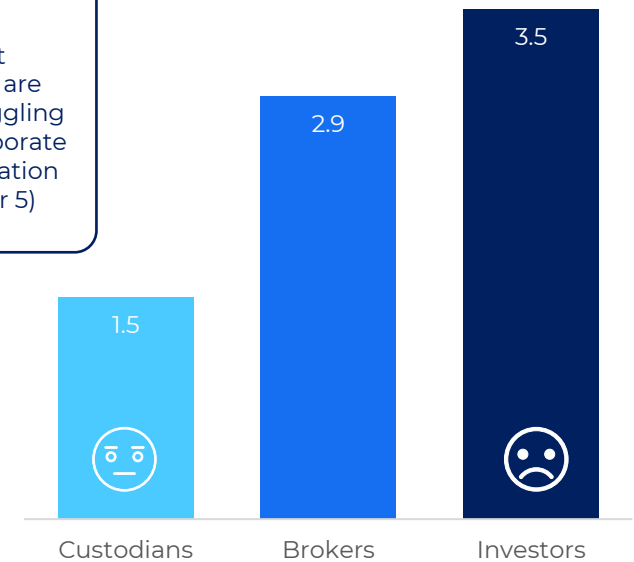
...but the solutions available are limited in their impact, especially for investors

What are the key challenges that you face in automating your corporate action data processing?
(Average scale of challenge, out of 5)



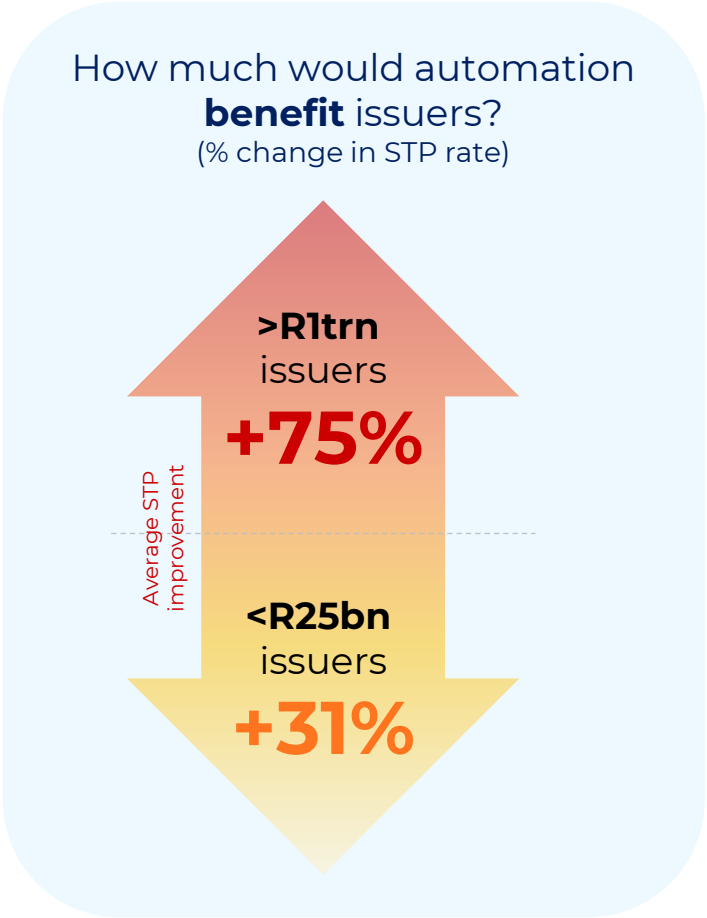
Who is struggling the most?
(Average scale of challenge, out of 5)

88%
of market participants are seriously struggling with their corporate action automation (scoring 4 or 5)



3. The case for market transformation

The issuer case for automation is compelling



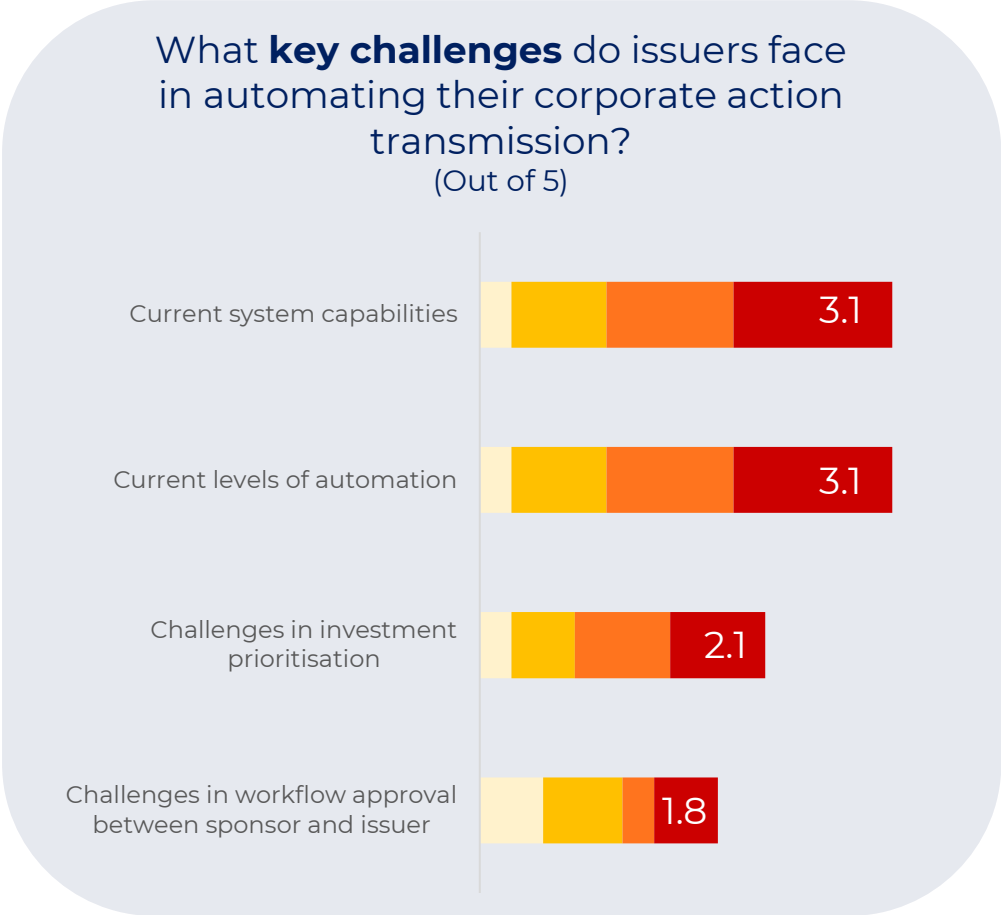
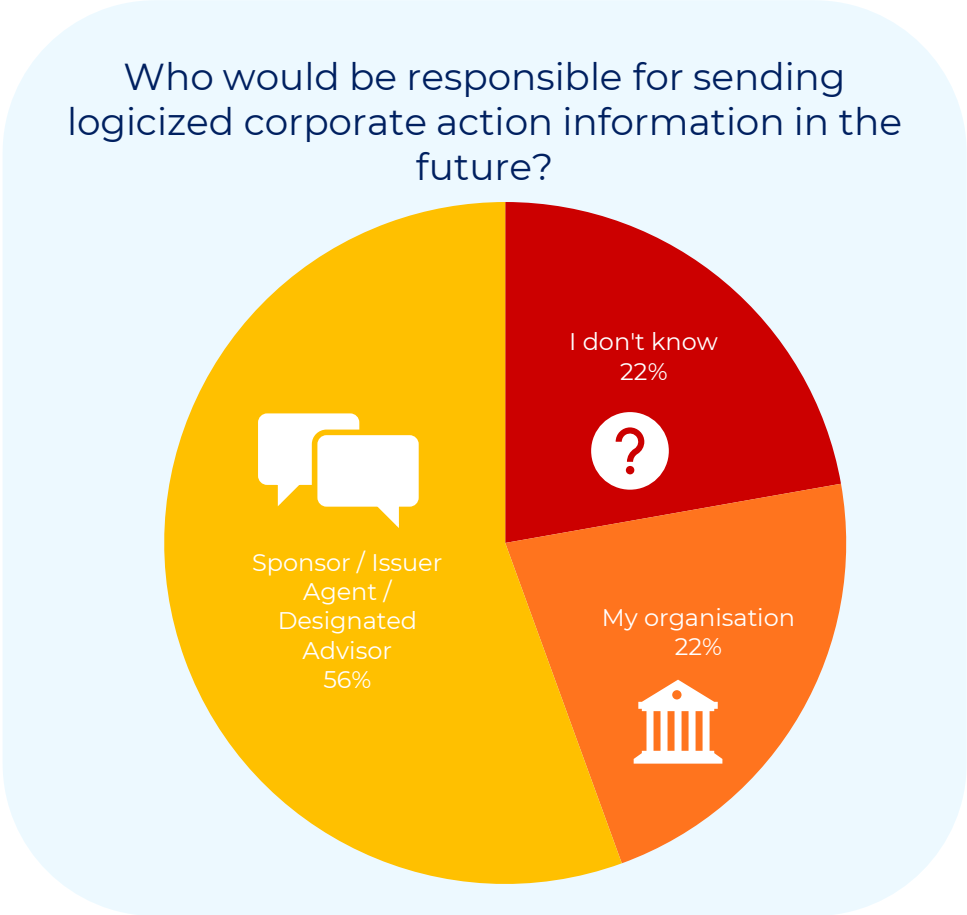
?

Are these costs project costs or long term?



3. The case for market transformation

...but does current legacy technology stand in our way?



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What next?



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