



the ValueExchange

ISO 20022 — Part 2

THE CONVERGENCE OF COMPRESSION AND FRAGMENTATION

 smartstream



CORPORATE ACTIONS RISK AND THE COST OF FRAGMENTATION

The asset servicing industry is under mounting pressure. Volumes are climbing, timelines are tightening, and client expectations continue to rise. Nowhere is this more evident than in corporate actions, where the complexity of global markets collides with fragile operating models.

Corporate actions risk today is shaped by two reinforcing dynamics: market compression and infrastructural fragmentation. Compression reduces the time available to decide and instruct. Whereas fragmentation multiplies the places where information can drift or be misinterpreted. Together, they create a cost and risk profile that is hard to control with manual workflows and narrative-heavy data.

In the maturity model introduced in our first paper (**"Accelerating Beyond Legacy"**), firms progress from manual, ad hoc workflows to structured, status driven lifecycle control. Fragmentation is the barrier that slows that journey. This paper defines the parameters of corporate actions risk from announcement through to payment and claims; quantifies the operational impact of fragmentation; and sets out the design principles that ISO 20022 offers which helps firms to move from milestone driven batch processing to status driven, exception led controls.



THE CONVERGENCE OF COMPRESSION AND FRAGMENTATION

Corporate actions risk today is the product of two forces that have been moving in opposite directions for decades.



Compression is structural.

Event volumes and participating accounts are rising, decision windows are narrowing, and the number of concurrent touchpoints per event continues to expand. Shorter settlement cycles, 24x7 trading and the growth of securities lending and retail participation compress the time available for accurate instruction processing.



Fragmentation is architectural.

Most organisations run corporate actions across a number of different systems and even spreadsheets. Data is copied rather than reconciled; narratives are interpreted rather than normalised; workflows are milestone driven rather than status driven. The consequence is more manual effort precisely when time is scarcest.

As Adam Cottingham, SVP of Asset Servicing Products and Services at Smartstream puts it:

“ The industry has created “contributor overload” without providing the means to differentiate sources, manage variance over time, or apply context across the chain. Expectation has risen while accuracy has not. The result is a risk perimeter that grows non linearly with volume.

”



THE FINANCIAL IMPACT OF FRAGMENTATION

The cost profile of corporate actions is now dominated by people and process remediation. Direct spend rises with headcount in local markets, and error costs increasingly sit with investors and custodians. Hidden costs proliferate in additional data sourcing, reconciliation and exception handling. Small value errors are escalating because people based controls do not scale.

By the numbers (global averages)



USD 14 million per annum

direct **corporate actions costs borne by investors**, with indirect pass through costs several times higher.

Up to 10%

of total running **costs** can be **due to processing errors**.

Under 40%

STP rates for voluntary events, and manual instruction processing is still the norm in many firms.



75% of investors

report **manual validation** of announcement data in high growth markets, and additional data sourcing is a leading driver of high value errors.

From a messaging standards point of view only a small fraction of the market is using ISO 20022 throughout the end to end value-chain today.

17% of notifications received in ISO 20022.

Only 2%

elections processed using the standard.

Uptake remains slow less because of technical barriers than because most firms see little external demand while many have limited in-house capability to support ISO 20022 at scale.



Recent market signals

Asset servicing volumes are growing **north of 25%** year on year for many institutions, with Asia outpacing other regions. Cost growth is being driven mainly by **core processing** rather than by one off changes, and small value errors are rising because controls remain people based rather than platform based. In Europe, automation levels are reported to be declining faster than in other regions, as budgets continue to prioritise proxy and tax over corporate actions. These signals reinforce the compression-fragmentation dynamic: more events, less time, same tools.

The business outcome is a structural budget holdback for remediation that crowds out strategic change. STP rates for voluntary events remain the weakest link, and manual re validation is endemic. In parallel, issuers carry their own burden in missed engagement, late responses and difficulty identifying beneficial owners. The net result is an ecosystem where the downside of inaction is still under appreciated even as run rates climb.



Recommendations for processing design

1.

Treat corporate actions as a time critical, status driven process, not a periodic batch. The operating system must be status driven, not milestone driven, routing exceptions with decision ready data.

2.

Replace data translation with data normalisation. Translation reconciliation loops are the primary hidden cost.

3.

Concentrate sources. Additional sourcing should be a measured control, not a default behaviour. “More feeds” without attestation deepens entropy.

4.

Build true interoperability between ISO 15022 and ISO 20022 to protect change windows and avoid excessive coexistence risk.

LIABILITY AMBIGUITY AND REGULATORY MATURITY

Liability for corporate actions errors is often described as if it were binary, but in practice it looks more like an insurance framework that diffuses responsibility along the chain. Working groups have driven meaningful progress on message content and market practice; however, top down insistence for timeliness and interoperability are still catching up with market realities. Meanwhile, regulation tends to focus on outcomes (for example “without delay”, machine readable formats, confirmations) more than on the operational design needed to achieve them.



What the rulebook implies for operating design

- › **Timeliness:** issuer initiated corporate events should be relayed on the same business day throughout the chain, with a concession of 10:00 the next business day in the event information arrives after a 'late day threshold' (where relevant). Further, intermediaries should not impose cut offs earlier than **three business days** before the issuer deadline. These expectations translate into concrete SLAs, dashboards and escalation paths.
- › **Machine readability:** messaging must be machine processable end to end throughout the chain. In practice, that means eliminating narrative only content in critical fields and normalising templates across markets.
- › **Confirmations and traceability:** confirmations of receipt, recording and counting of votes, and post payment reporting must be handled predictably and with a full audit trail across the chain.



By following these recommendations, throughout the chain, the minimum bar is set machine processable messaging, same day transmission between intermediaries, and decision windows that are long enough to be actionable by beneficial owners. For firms still running narrative heavy, batch based processes, meeting that bar consistently requires a fundamental change in how data is created, validated and propagated.



THE RISK MODEL: FIVE PARAMETERS THAT CREATE THE POTENTIAL FOR LOSS

Corporate actions risk can be described concisely across five parameters. Each parameter interacts with the others; together they define both probability and severity.

Market and event type



Risk varies materially by the market micro structure and by event type. Tender offers with short windows and local idiosyncrasies; complex reorganisations with contingent outcomes; elective dividends with FX and tax implications; late announced income events; and escrow or class action flows all demand different controls. The firms that apply uniform workflow and processing solutions across these event categories inevitably run the risk of resorting to manual, localised workarounds rather than seamless, integrated processing tailored to the events type.

Position size, type and price sensitivity



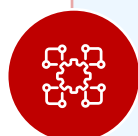
The same error has different materiality across the different securities account structures. Omnibus versus segregated positions, rehypothecated or loaned stock, and leveraged exposures all amplify potential for loss. Controls must be position aware, aligning validation depth with exposure.

Time



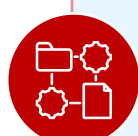
Time is the most common cause of error. The more time compressed an event, the higher the likelihood for processing errors. Time compression arrives through seasonal spikes, shortened cycles such as T+1, and disparate market conventions. Operating models that depend on batch cut offs or end of day reconciliation are also intrinsically mis aligned with this structural reality.

Complexity of the counterparty and custody chain



Every additional link in the chain adds translation risk. Global custodians, sub custodians, primes, transfer agents and data vendors all provide value; they also create variance in data models, deadlines and portals. Without an object-oriented model and status driven orchestration, that variance expresses itself as exceptions and rework.

Data provenance



Issuer announcements enter the market through multiple channels of variable quality. In the current “attester vacuum”, precision has risen without sufficient attestation or provenance controls. False positives and false equivalence proliferate. Without explicit source and lineage tracking, downstream systems must reconcile interpretations rather than facts.



LIABILITY AMBIGUITY AND REGULATORY MATURITY

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Announcement. Multiple un attested sources, late or incomplete narratives and divergent local templates trigger manual enrichment and re keying. The first reconciliation loop is born here: between translated narratives and a firm's security master.

Entitlements and positions. Eligibility and holdings are often aligned late in the day; open positions, stock on loan and fails management create time pressure. Without intraday refresh, downstream dates and deadlines drift from reality.

Election capture. Portal proliferation and non standard instruction formats create friction for clients and for operations teams. Election windows are short; cut offs cascade back through the chain. Instruction status is rarely visible end to end.

Distribution and claims. Payments, FX and tax adjustments frequently rely on separate systems and teams. Claims are tracked in offline tools, with weak linkage back to the original event and positions. Feedback into the control loop is slow or absent.

The architectural pattern behind these issues is consistent: data islands, milestone checklists and human middleware. ISO 20022 gives us the opportunity to replace them with status rich objects and event driven orchestration.



PEOPLE DEPENDENCY AND KNOWLEDGE RISK

Corporate actions remain disproportionately people intensive in both global hubs and local markets. Knowledge sits in teams, not in systems. During seasonal spikes, firms “staff for the peak”, then absorb higher operational errors and losses with the expectation of post event remediation. As voluntary events and instructions drive the highest manual activity, the marginal cost of volume growth is rising fastest where the process is least automated.

Attrition turns into operational risk when desk level playbooks are the only source of process truth.

A sustainable model captures that knowledge in data and workflow: standardised objects, machine readable rules and status driven checkpoints that make expert judgement an explicit, auditable step rather than an ambient dependency.

LEGACY INFRASTRUCTURE: WHY TRANSLATIONS BEAT TRANSFORMATIONS

Most firms have done the hard yards of integrating ISO 15022 into their stacks. That investment is now the constraint. The default answer to any change request is another translation layer, another spreadsheet, another local script. Translations create tight coupling and long testing cycles. They also make exceptions opaque: when a status is the by product of a translation pipeline, nobody “owns” the truth.

ISO 20022 corporate actions message family (examples)

CANO (Notification), CAIN (Instruction), CAIS (Instruction Status), CAIC (Instruction Cancellation), CACO (Movement Confirmation), CARE (Movement Reversal), CAPA (Preliminary Advice), CANC (Cancellation Advice), CAPS (Processing Status), and others. In combination, these messages carry richer, structured context across the lifecycle than their ISO 15022 predecessors.

A step change comes from replacing translations with normalisation and orchestration. ISO 20022's richer objects enable status to accompany the data throughout the lifecycle; message matching across notifications, entitlements, instructions and payments becomes routine; and exception routing can be driven by state and exposure rather than by inbox triage.





MARKET PRESSURES: ALIGNMENT TO THE BENEFICIAL OWNER

The direction of travel is clear. Retail participation is rising; securities are more mobile; and client expectations for real time status and decision support are now shaped by other parts of finance. The operating model must move closer to the beneficial owner: earlier notifications, clearer narratives, traceable lineage, and self service instruction options. Firms that treat ISO 20022 as an agent to agent plumbing upgrade will miss the strategic upside in client experience and retention.



OPERATIONAL MATURITY: WHERE ARE YOU TODAY?

Part 1 set out a maturity path from fully manual processing to automated, status driven lifecycle control. Most firms find themselves somewhere between ad hoc and systematic. The fastest route forward is not another intermediate layer but a pivot to systemised, best of breed services that deliver:

- › Built in interoperability across ISO 15022 and ISO 20022 to absorb custodian migration windows.
- › An object-oriented, common data model with lineage and attestation, not just formatting.
- › Status driven workflows, including instruction lifecycle and claims, with decision ready context.
- › Test harnesses and synthetic data for end to end regression across both standards.

This maturity shift is a prerequisite for the solution design we cover in Part 3 of our series. It reduces the surface area for change, shortens implementation timelines and turns expertise into hard-coded, repeatable controls.



THE CASE FOR ACTION

The evidence is consistent: costs are rising faster than automation; manual re validation and additional data sourcing drive the most expensive errors; and voluntary events remain the weak point in STP. Regulations have set clear expectations for timeliness and machine readability; client expectations have moved on. The status quo is not resilient to the next leg of volume growth or to further settlement cycle compression.

ISO 2022 is not a panacea; it is an enabler. Without changes to operating design—towards provenance, status and orchestration—new messages will simply feed old processes. With those changes, however, ISO 2022 becomes the backbone for a safer, more transparent, more client centred corporate action lifecycle.

WHAT TO DO NOW

Focus effort where risk and value concentrate.



Stabilise announcements at source. Introduce explicit source attestation and weighting; normalise narratives into decision ready objects; and deploy early warning controls for changes and cancellations.



Ensure status reporting is first class. Persist statuses across notifications, entitlements, elections, distributions and claims. Report it to clients and counterparties. Route by status and exposure, not milestone



Compress the translation surface. Replace point to point mappings with an object-oriented model and API layer across ISO 15022 and ISO 20022. Treat translation as a boundary concern, not a core workflow.



Structure and secure the lifecycle. Build end to end observability: time to instruct, exception ageing, client response patterns, and claims velocity. Use these controls to govern BAU and to de risk change.



Prove it continuously. Stand up reusable test harnesses and synthetic datasets that reflect both message standards. Align custodian testing calendars with internal releases.

WHAT'S NEXT IN THE SERIES

This second paper has defined where risk and inefficiency concentrate today. Part 3 sets out a status driven, object orientated operating model: how to design the data, workflow and controls for real time lifecycle management, and how to balance build versus buy. Part 4 then widens the lens to the industry: shared models for data cleansing and exception mutualisation; extending benefits across proxy, class actions and claims; and the vendor enabled pathways for collaborative modernisation.



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