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VENTURE NAVIGATOR

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From the Editor

If you are considering a search for a next generation **portfolio accounting system** to scale your business, there are many factors to consider. Has your current portfolio accounting solution grown stagnant? Is it hindering efforts to make improvements or changes in other parts of your firm? In this issue, we take a look at the evolution of portfolio accounting systems over the past several years and highlight features of some of today's best of breed solutions.

Implementing and integrating a portfolio accounting solution, as well as any other enterprise system is a significant undertaking. On page 6 we take a lighter look at **Project Management** and offer up a few things to be mindful of to ensure the success of your project and your success as a project manager.

And last, in this issue we examine some of the challenges faced in the **processing of corporate actions**, an operational area with lots of room for improvement.

As always, we look forward to your feedback and suggestions for future issues of Venture NAVIGATOR!

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The Evolution of Portfolio Accounting Solutions

It can be mind-boggling to think about the cost and effort required to replace a portfolio accounting system – a core piece of the investment management systems architecture for financial services firms -- even if the existing system(s) are considered sub-par. The competitive features of many of the popular best of breed systems of just four or five years ago are no longer differentiating features, but instead are common to most vendor-provided portfolio accounting solutions. Portfolio accounting systems have evolved from performing only standard accounting and tracking to being highly integrated, straight-through, multi-currency, multi-base, with performance and client reporting capabilities.

Today's best of breed high-end portfolio accounting systems capitalize on flexibility, scalability, and integration with existing infrastructures. As the economy continues its slow recovery, investment firms looking to improve operational efficiencies, reduce costs, and enhance client service, are beginning to search for their next generation of portfolio accounting systems to scale their businesses. Unlike prior searches, which focused primarily on software to support the firm's basic portfolio accounting requirements, today users are demanding automation that supports very high volumes of data 24 X 7 and allows the firm to rapidly respond to changes resulting from internal and external business forces.

Key Business Drivers

In addition to the broad technology drivers that continue to drive investment management technology strategies – cost containment, shift from strategic to tactical initiatives, focus on ROI, consolidation, and convergence – firms today are faced with new challenges with respect to their portfolio accounting solution(s).

- Elimination of multiple disparate accounting systems.
- Ability to bring on new business in an effective manner (e.g., SMAs, Hedge Funds) and the inherent requirement to support significantly higher volumes.
- Flexibility in processing complex financial instruments.
- Ability to provide value-added services to end users.
- STP – Straight Through Processing.

Consolidations, convergence of business lines, and globalization of financial services' institutions have resulted in huge firms, many consisting of multiple business lines, often cross-border, and with exposure to many different asset classes, markets, and counterparties. The typical by-product for back office operations is multiple disparate portfolio accounting systems. The resultant overhead – cost and time – is driving back of-

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fice operations to consider alternatives, that is, a new global enterprise-level solution capable of supporting multiple accounting standards, hundreds of users, and a high number of accounts.

Successfully reconfiguring existing systems to support separately managed accounts, one of the fastest growing segments in the marketplace today, is difficult at best. To support SMAs, systems need to be able to handle extremely high volumes of portfolios and transactions. And, since managed accounts require unique interfaces with each sponsor, connectivity to sponsors is essential for the longevity of any managed accounts solution. An option that has been somewhat popular is to use standard portfolio accounting systems as front-ends with a managed accounts solution on the backend to handle all sponsor interfaces. Going forward, this approach will prove to be problematic since many of these systems are not properly built to handle multi-style accounts.

With increased scrutiny of hedge funds operations, firms need to reduce operational risk and streamline the process of delivering accurate, timely information to the front office, middle office, and investors. This requires reduction of manual intervention and increased reliance on technology for a competitive advantage. Some shortcomings of accounting systems used to support hedge fund management include problems relating to allocation of capital to fund partners, reconciliation, wash sale reporting, and auto-correct and audit trail features. Additionally, many systems today are not user friendly and require more manual intervention than is desirable. That, combined with reporting weaknesses, stifles the amount of automation that can be realized, thus impairing STP.

Today's best of breed high-end portfolio accounting systems capitalize on flexibility, scalability, and integration with existing infrastructures.

Current volatile market conditions continue to fuel the growth of new derivative financial instruments. Support for floating rate notes, mortgage and asset backed securities, and foreign bonds is no longer sufficient. Today's portfolio accounting system needs to be able to support complex instruments such as capitalized and inflation indexed bonds, derivatives such as interest rate, total return, and credit default swaps, distressed debt, as well as future investment instrument trends. Firms must be able to invest in new security types based on their market call, not on what their accounting system limits them to.

In today's highly competitive environment, firms are constantly looking for something that will distinguish them from their competitors through global expansion, acquisitions, partnerships, joint ventures, and more. They need to be responsive to complex custom client requirements and have a transparent client service model. All this requires that firms are not encumbered by a legacy environment, but rather that their systems are flexible enough to allow them to address new requirements in-house and change as the marketplace changes.

And finally, today's portfolio accounting system needs to link up with multiple ancillary systems to deliver a platform of seamless operability providing scale and operational efficiency along with access to and accuracy of data in order to achieve external and internal STP. Systems should provide a library of interfaces that follow industry standards or facilitate integration with leading investment industry systems.

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Have Existing Portfolio Accounting Solutions Grown Stagnant?

There is not a whole lot to differentiate the 'best of breed' solutions from vendors just four or five years ago. "The products and services which we have traditionally thought of as competitive are now commonplace," according to Larry Tabb of the Tabb Group. In essence, they all offer:

- Support for 'all' asset types.
- Flexible accounting methods and support for client-specific policies including:
  - Ability to customize chart of accounts
  - Multiple set of accounting books
  - Multiple base and local currency ledger account balances.
- Daily and monthly valuations, weekly, semi-monthly, and monthly closings, and back-dated period posting with ledger balance roll forward.
- Integration with order management, custody, client reporting, performance measurement, systems and more.
- Ability to support legal and regulatory requirements, such as Schedule D and Canadian Tax Reporting.
- Online inquiry and comprehensive reporting.

In addition to lack of distinguishing functionality, many of these solutions are based on old technology, even though many tout an 'open architecture'. This makes it difficult for a firm, or even the vendor, to rapidly respond to changes to support new business and technical requirements.

To Upgrade or Not

Before considering an alternative solution, you should thoroughly examine your current systems architecture and ask the following questions:

What is the cause(s) of pain with the existing legacy system? Can you get more automation out of the existing legacy system? Can the legacy system support new lines of business? Can it support new investment instruments? Are you faced with a required system upgrade? Is your solutions provider responsive to your business requirements? Will the aforementioned result in increased operational overhead or perhaps even adds to staff? Is the legacy system hindering improvements in other parts of the firm?

A tactical band-aid approach does offer the benefits of a shorter project timeframe – from development to implementation – and a better opportunity for a higher ROI. But if you anticipate that you'll need to re-visit the same problem(s) in the not too distant future or perhaps even find yourself at a competitive disadvantage, then consideration of a strategic alternative to your legacy system may make best sense for the longer term.

> This requires that firms are not encumbered by a legacy environment, but rather that their systems are flexible enough to allow them to address new requirements in-house and change as the marketplace changes.

Today's Baseline Feature Set

Firms today still require multi-currency investment accounting, multiple business calendars, detailed cost accounting for a broad range of security types, flexible investment ledgers, income processing, corporate action processing, and more. With emergence of new instruments, new accounting regulations, and tax code changes, core must-have functionality found in most portfolio accounting systems has evolved accordingly.

In addition to efforts to make their solutions compatible with other systems through truly open architectures, vendors are enriching

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product functionality through distinguishing new features such as:

- Customizable web-based interfaces, allowing operations, accountants, etc. the flexibility to access information, analyze data, and enter transactions wherever and whenever with just a browser. Web-based deployment over the internet and/or firm intranet lowers the total cost of ownership by eliminating the need to distribute and install a system in multiple locations.
- Externalized business logic so that business rules can be customized by the business user to support new and complex security types, support complex and evolving fund structures, and address new accounting regulations and tax code changes, obviating as much as possible the need for vendor or the firm's internal IT development resources.
- Flexible internet reporting capabilities.
- Integrated data hub for data management, including validation and enrichment of data.
- Ability to easily manage exceptions, including reprocessing via flexible rules-based processing.
- Support for high volumes with exceptional performance across multiple global sites on a 24 X 7 basis.

And last, while Web services' solutions have yet to impact the market in large part due to the immaturity of standards and interoperability issues, when they are ready for prime time, Web Services will further conserve development resources and allow much deeper integration of systems and components than is available today. Additionally, Web Services will make it easier for firms to provide software as a service to outside partners.

Leading Solutions

Today the market features a range of players, each competing for market share and catering to firms from small hedge funds to large investment managers. Some leading systems and solutions (by no means an exhaustive list) include:

- Advent Geneva®
- DST International (DSTi) Hi-Portfolio
- Eagle STAR™
- INDATA® I.M.S. for Windows®
- Princeton Financial® System's PAM®
- Sungard Invest One®.

Additionally, some vendors are reinventing themselves through strategic partnerships with other vendors to deliver a suite of complementary solutions. For example:

- Advent Software (Geneva®) and Netik (InterView™) recently joined forces to provide real-time delivery of portfolio accounting information internally to a firm and externally to their clients leveraging Geneva's accounting engine and InterView's investment hub database and portal.
- DST International and Princeton Financial® Systems (PAM®) signed an agreement to allow the State Street Corporation subsidiary to market DSTi's OpenDataWarehouse (ODW) as part of their outsourcing solution, enabling clients to leverage ODW's unified reporting repository and data gateway.
- Thomson Financial, in partnership with Vestmark, recently announced new technology solutions that leverage Vestmark technology and capabilities in areas such as system replication and workflow automation to provide a new level of scalability, flexibility, and operational efficiency to PORTIA® installations. Additionally, Thomson introduced the Thomson Integration Toolkit, which utilizes Microsoft BizTalk® Server to provide for more sophisticated and manageable real-time integration of PORTIA and Oneva Trade EQ™ with external systems and information providers.

Other alternatives include investment technology and operational outsourced portfolio accounting solutions for the back office, allowing firms to increase efficiency in back office processing and reduce operating costs.

Sometimes the differentiation is less among products than among vendors. Where the difference is slight among the products, then vendor reputation and comfort with the vendor can be the deciding factor in selecting the best solution for a firm.

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Conclusion

Firms today need to be able to decouple assets under management growth from staff growth, which translates directly into increased economies of scale, lower cost of production, and higher profitability. They need to be poised to bring on new business and grow assets under management by quickly adapting to changing market conditions and customer preferences. While the ideal portfolio accounting solution for one firm will be unique to that firm, some broad generalizations can be made.

- Will the platform scale for future growth?
- Does the level of flexibility provided by the system foster a firm basis upon which to build for the future and handle increased complexity and changing regulations?
- Does the system really better automate the process?
- Are there adequate controls and audit trails in place?
- Can you readily access the information that you require and easily incorporate it into all your reporting?

Beyond functional and technical considerations, a portfolio accounting solution should be evaluated based on a variety of factors, not limited to but including, the vendor's track record for efficient implementations, scalability, flexibility, cost, service infrastructure, and commitment to ongoing product development. Bottom line: will your firm be better off three or four years from now?

Venture FSG provides software evaluation services and system integration services for the investment industry. Venture has partnered with many firms to evaluate and integrate portfolio accounting solutions. Venture staff are currently helping clients with the operational and technical complexities of implementing portfolio accounting systems. Please contact us if you wish to have an informal discussion about portfolio accounting solutions or any other topics.

PATRIOT Act Compliance

Venture Financial Systems Group, LTD. is pleased to announce the publication of its latest article on the USA PATRIOT Act. The article is featured in the Summer 2003 issue of *The Journal of Investment Compliance* (http://www.iijic.com/) and was co-authored by Venture consultants Vincent Manning and Marc Spitzner along with Bingham McCutchen attorneys Ralph C. Martin II and Donald J. Savery.

"Knowing Your Customer and Culture: An Integrated Approach to USA PATRIOT Act Compliance," discusses the complexities involved in implementing an end-to-end solution to the USA PATRIOT Act and the cultural impact to the firm. Full compliance with the Act will not be achieved merely through technology, but through a combination of technology and cooperation between a variety of intra-organizational business areas.

Click the following link to access the article on the Venture website: Knowing Your Customer and Culture: An Integrated Approach to USA PATRIOT Act Compliance.

Event Calendar

We will be exhibiting, sponsoring, and/or speaking at the following industry tradeshows. If you plan on attending any of these events and would like to schedule a meeting to learn more about Venture or get a product demonstration of RUP4STP, please contact us at 781.932.7544.

NICSA Technology Forum	May 11—12, 2004	Boston.,MA	Exhibitor	www/nicsa.org

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Why Is Project Management So Difficult?

"I love deadlines. I especially like the whooshing sound they make as they go flying by." - Anonymous Project Management Proverb

As a project manager, you are the person ultimately responsible for the success or failure of your project. Available to help you manage your project are project management tools, books and seminars, and Project Management Office (PMO) guidelines galore. There are numerous factors that play a role in the success or failure of your project and just one bad decision can result in your project running amuck. Projects are about people, the most critical factor for all projects. People are complex and therefore projects are inherently complex. So what things should you be mindful of to ensure the success of your project and your success as a project manager?

1. **Focus**
   "*The most valuable and least used word in a project manager's vocabulary is 'No'"*
   - Anonymous Project Management Proverb
   Many projects fall apart because, simply stated, they lack focus. Minimize, if not eliminate, distractions, even for things that seem like a good cause at the time. Spreading yourself too thin and making commitments that you cannot realistically meet result in compromise to one or more project deliverables. Focus on a manageable number of project initiatives, and only once on a steady and maintainable course, should you consider expanding focus to other opportunities, provided that additional qualified resources are available.

2. **Cut Your Losses When Necessary.**
   "When you discover that you are riding a dead horse, the best strategy is to dismount."
   - From the Tribal Wisdoms of the Dakota Indians
   Keep your focus, but be disciplined enough to regularly assess whether the project is still a worthwhile initiative that will produce tangible results. Question assumptions. Ask, "Why are we doing it this way? Does this way make sense? Is there a better way?" Assess whether time to market is seriously at risk. If business drivers have shifted or the project is simply a runaway train, cut your losses. Bookmark the project in case you want to salvage any pieces and shift focus to more promising efforts.

3. **Scope Creep and Stated Requirements**
   "If project content is allowed to change freely, the rate of change will exceed the rate of progress."
   - Anonymous Project Management Proverb
   Scope creep is the piling up of small changes that by themselves are manageable, but in aggregate are significant. Stick to the stated requirements, that is, requirements ranked in order of priority and criticality to time to market. Don't be afraid to question whether a requirement ought to be done at all. Things are always in a state of flux and perhaps there is a better way to address a requirement if it indeed is still a requirement at all. Ensure that requirements have been clearly articulated to your development/engineering team and/or third party solutions provider(s). If they are busy playing detective, you can be assured that all the detective work will translate into project overhead and overruns. And, while many testers/QA analysts are good detectives and have a nose for where bugs are hiding, they too need to know requirements in order to fully test product functionality against stated requirements.

4. **Communication**
   "Of several possible interpretations of a communication, the least convenient is the correct one."
   - Anonymous Project Management Proverb

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Do not assume that everyone is on the same page. Instead, assume that at least a few people are not fully aligned with the game plan. Often there are different (sometimes many) interpretations of the same message. Start and end the day with brief status meetings if necessary. Make sure everyone understands the game plan for the day and what is specifically expected of each today, tomorrow, next week, all the way to the end of the project. Make sure that there is a consistent message, that it is repeated often, and that everyone understands their role in and accountability to the project. Manage by walking around. You can get informal updates this way – team members can informally demonstrate their progress (or lack thereof).

"What you don't know hurts you." - Anonymous Project Management Proverb
Additionally, it is imperative to keep your client regularly informed and manage their expectations. If feasible, include a client as a part of your test team. Some things will slip. Sometimes tradeoffs will be required. Keep the client regularly and proactively informed so that your client can make project adjustments on their end if needed. There are few things worse than to find out the day of an expected software release that the ship date has slipped, especially if the new ship date is still ambiguous.

5. **Risk Management**
   "A little risk management saves a lot of fan cleaning." - Anonymous Project Management Proverb
   As Murphy's Law states, "If it can go wrong, it will." Project risk management helps you identify potential risks and plan for their occurrence, thus helping to improve the effectiveness of your project management. It will help thwart the defensive atmosphere that otherwise would be likely to develop when faced with errors and other unplanned circumstances. An engineer may quit, a server may fail, required software components may be more difficult to integrate than originally expected and vendor assistance may be difficult to obtain – the list goes on and on. Make sure that you have your contingency plan in place and that you and the project sponsor regularly monitor and mitigate the potential risks to your project.

6. **Project Plans, Milestones, and Estimates**
   "The nice thing about not planning is that failure comes as a complete surprise rather that being preceded by a period of worry and depression."
   - Anonymous Project Management Proverb
   A project plan is critical to the success of any project. As in the words of Benjamin Franklin, "If you fail to plan, you are planning to fail". Without a project plan, it is difficult at best to manage schedule slips.

   If there is a long way to go to the next project milestone or worse, if there are no milestones at all, project teams sometimes find themselves wasting time at the fuzzy front end of a project and planning to catch up later. The project team needs to treat every project minute as if it were the last minute. Breaking the project up into smaller deliverables and establishing target completion dates for each helps to keep the team on the right track along with giving them the opportunity to realize accomplishments throughout the life of the project.

   Good estimation skills are the result of experience. Even with experience, people are generally overly optimistic regarding estimates (especially if they feel that they are being subtly coerced into delivering overly optimistic estimates to make a manager happy!) Break up project milestones into specific tasks at the most granular that is practical. It is easier to estimate effort for those granular and very specific tasks.

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7. **People**
"It's not the hours that count, it's what you do in those hours"- Anonymous Project Management Proverb
Adding more people or mandating absurdly long hours do not bring in the project end date. Adding people mid-project typically means additional overhead for the rest of the team, including training, ramp-up, etc. Mandated overtime eventually contributes to burnout. People under pressure do not work smarter or better. They might work faster, but usually at the expense of quality and certainly their own job satisfaction.

8. **Team**
"Most of us can run just about all day on a compliment." - Mark Twain
A project can be like a huge dysfunctional family where everyone is looking out for themselves or it can choose as a group to hammer out solutions. Teamwork and chemistry are critical to project successes, fostering better accountability and commitment to the team. Teamwork facilitates respect and value for each team member's contributions and even make it easier for folks to accept help from a colleague instead of trying to be the superhero. No one wants to let the team down.

Ensure before the project begins that you have defined staffing requirements for the project. People selection plays a key role in the success of the project. Along with staff selection is the ability to assign the right team member to each project task – this helps ensure that the project will get off on the right foot. With the right people assigned to each task, the project manager can focus on managing the project instead of putting out fires.

People typically like to identify with a group that is doing work of lasting value. Identification with the group gives people more resilience to the inevitable problems that arise. The result is less infighting, less conflict, especially suppressed conflict. Good team rapport leads to focus on the positive and ways to resolve problems, minimizing the risk for a derailed project. If you are lucky enough to have the same team available for the next project, they'll likely be noting improvements required for the next time around.

Maintain a consistent management style. When you are having a bad day, harbor those feelings and give off a friendly attitude. This will allow your team to feel comfortable when they approach you with issues. A manager is less likely to have a true understanding of where a project lies if his staff doesn't feel comfortable going to him with their problems.

9. **Common Sense**
"Common sense is very uncommon." - Horace Greeley
Trust your gut and intuition. Need we say more?

10. **Have Fun**
"Accept that some days you'll be the pigeon and some days you'll be the statue"
- Anonymous Project Management Proverb
Above all, have fun. Recognize, acknowledge, and celebrate the little (and big) personal and team successes along the way! All this helps to reinforce the team and the fact that everyone is working on a cool project. Maintain a sense of humor – it will help you to laugh at unexpected turns in the project and allows the team to think more expansively.

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Corporate Actions Processing

With Investment Management firms under the gun to work with constrained budgets and looking for means to become more cost effective in day-to-day operations, an area getting increased interest of late is the processing of corporate actions. As firms look to further automate operations in a move towards "straight through processing" rewards, the processing of corporate actions is coming squarely in the sights of many firms. With manually intensive procedures still in place at many firms, there is potential risk to operations. Will firms begin to implement more automation to handle corporate actions?

Today organizations prefer to initiate projects that are tactical in nature and result in ROI over months vs. strategic projects that result in a longer term ROI, often in years. Projects such as corporate actions automation have been historically perceived as more strategic than tactical. However, as organizations begin to take greater notice of increases in corporate actions processing costs, this could quickly change. With the surge in new financial products and rapidly increasing number of accounts (such as the explosion in Separately Managed Accounts), the need for a better means of handling corporate actions is likely to escalate.

Corporate actions fall into two general categories -- mandatory events and voluntary entitlements. Mandatory corporate actions typically are announcements and instructions for dividend payments, income payments, and stock splits. A number of other mandatory corporate actions exist. Voluntary corporate actions require a decision on the part of the investor. Voluntary corporate actions are most often not automated (as a result of requiring a specific decision to be made). An example of a voluntary corporate action is a Rights Offering, which is the offering of common stock to investors who currently hold shares entitling them to buy subsequent issues at a discount from the offering price.

Voluntary corporate actions may result in the greatest potential liability to asset managers and their custodian banks due to the fact that any loss caused by misinformation or delay in providing data to the investment manager can result in a lost financial opportunity, or worse, result in monetary loss to the investment firm. Corporate actions, whether voluntary or mandatory, can have a ripple effect within a financial services firm. Incorrect handling of a corporate action (or missing a corporate action), particularly those that are mandatory, can impact a number of applications within a financial services firm. Applications impacted include portfolio management position record keeping, portfolio accounting, pricing, risk management, and compliance.

How are corporate actions typically handled today? Depending on the size and sophistication of the investment management firm, the current levels of automation for corporation actions are varied. A number of mandatory corporate actions such as Stock Splits (and Reverse Splits), dividend payments, and income payments are typically automated. The main concern for these automations is to ensure that the corporate action applies to the firm and is valid. Other corporate actions, particularly those that are voluntary, are more difficult to automate. The need for a decision to be made based on the circumstances surrounding the corporate action make automation of this task a challenge. In addition, communication of corporate action events has been disjointed and somewhat non-standard. With the recent arrival of the new ISO15022 message standards in 2002, firms have a greater

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For more information about the Automation of Corporate Actions, check out one or more of the following on the Web:

"Corporate Actions Join the STP Family"
http://www.heliograph.co.uk/drcorporateactions.html

SIA Presentation on Corporate Actions
http://www.sia.com/stpfall02/html/presentations.html

Corporate Actions Automation Survey 2003
http://www.bicdirectory.swift.com/temp/2751/43885/Survey%20results.pdf

DTCC "Transforming Corporate Action Processing" http://www.dtcc.com/ThoughtLeadership/index.html

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opportunity to capitalize on standardized structured data provided by the new messages and utilize the standards as the basis for moving ahead with increased automation.

That said, let's take a general look at the handling of corporate actions. A typical high-level workflow for handling corporate actions consists basically of the following areas:

1. Identify and Collect the Corporate Actions
2. Determine if Corporate Action is relevant to the firm's investors
3. Validate the Corporate Action (including data scrub)
4. Determine Entitlement Elections for Voluntary Corporate Action
5. Apply the Corporate Action
6. Corporate Action Notifications (custodians notifications, client reports, etc)
7. Reconciliation

On the surface, things do not appear to be so complicated. Looking at the first area, identify corporate actions, firms often subscribe to multiple vendors providing corporate action notifications. Vendors such as Bloomberg, Reuters, Telekurs, DTCC, and others – may provide notifications in any number of means and formats: proprietary feeds, SWIFT format messages, telex messages, XML messages, and flat files. Investment firms of-

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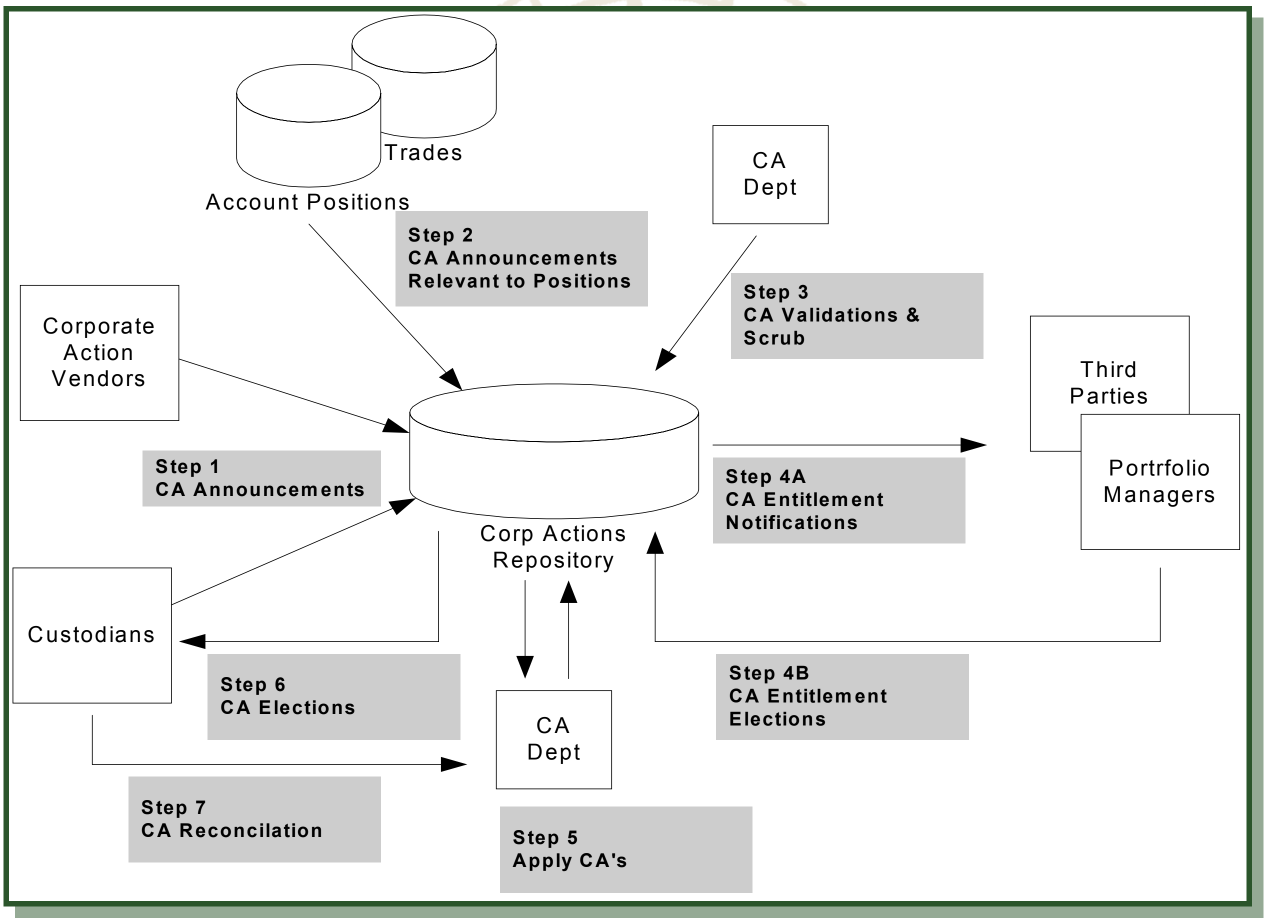

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ten need to subscribe to multiple vendors as a means to ensure that the corporate actions information is correct. Due to the risk of inappropriate identification of a corporate action and the resulting financial risk exposure, firms hedge their risks by using multiple vendors. With the very first processing steps, firms can find themselves confronted with a number of differing scenarios.

Determining if the corporate action is relevant to the firm goes beyond determining if the asset involved is held. Trades in process, assets on loan, and model portfolios need to be examined as well. With the increasing use of model portfolios for managing assets, the task becomes that much larger. In validating corporate actions, subscribing to multiple vendors as mentioned above helps to ensure that corporate actions are correct. Individuals may be required to provide data scrub and cleansing regarding corporate actions.

Where voluntary corporate actions occur, investment managers and appropriate third parties are notified and requested to respond with an election for the voluntary corporate action. If rules are pre-established regarding the voluntary corporate action, then an automated election may be generated. A rules-based approach is often necessary for automation of voluntary corporate actions. Voluntary corporate action entitlement and election response tracking is required for those cases where a set rule cannot be applied and an individual's decision is needed. In the SMA space, the client may have specific instructions on handling voluntary corporate actions that must be addressed on a case-by-case basis. These instructions will need to be gathered and collated from the external decision-makers and applied correctly to the pertinent accounts.

Notifications of elections for voluntary corporate action entitlements need to be communicated to custodians. This may include settlement instructions as well.

Reconciliation is a necessary check and balance to ensure that all parties involved in handling and managing assets are in agreement as to the outcomes of a processed corporate action. Resulting corporate actions processed often require subsequent communications of events to other parties, such as custodians for handling of settlement. Other tasks that often come into play are Claims Management where handling of exceptions occurs due to unsettled transactions past the required record date, such as the non-receipt of assets resulting from a corporate action. Many times this may be the result of late decisions on voluntary corporate actions.

In order to handle corporate actions, large firms that continue with a higher degree of manual procedures often have upwards of 50 or more employees involved, with as many as 20 or more dedicated to handling of corporate actions. Even smaller firms may have as many as a dozen or more involved in one way or another in handling corporate actions. If one were to assume a fully loaded employee annual cost of $75K per employee, the costs are sizable. Even where automation reduces costs by 50% to 60%, the savings can be considerable. This does not even consider the losses associated with incorrectly handled corporate actions due to manual processing mistakes.

Are firms recognizing the potential and willing to invest? The Tower Group produced a recent report in 2002 regarding investment in corporate action automation and the resulting savings:

"… 2002 estimates that the market is preparing to spend upward of US$38 million on automated Corporate Actions solutions growing to US$60 million per annum by 2005. By automating Corporate Actions financial institutions can make immediate loss savings and ongoing head count savings, with the potential to deliver an annual saving of up to US$5 million."

Per a report available from SmartStream regarding losses associated with manual processing:

"On average, financial institutions expect to lose, conservatively, US $2,500 per event in a manual processing environment. Which, when taking an average of 2,000 events per year, equates to a net loss of US$5 million per annum. Without even looking at other costs such as staffing requirements, it is already clear that the cost of processing Corporate Actions is extremely expensive using current methods."

As the competition in the Invest-

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ment Management arena heats up, with ever more focus on generating profitable returns, along with decreasing profit margins – accurate real-time assessment of investment assets is essential for Investment Managers. Failure to properly identify and handle corporate actions can have serious impacts and resulting consequences. Investment Managers (and their respective clients) demand a clear and accurate perspective on account positions, investment performance, and tax liabilities.

Changes to capital organizations, asset structures, and income events (such as dividends and coupon payments) need to be identified and handled accurately and quickly, with confirmed reconciliation between the various parties involved in these transactions. Corporate action events must be processed without failure in order to provide an accurate view of available positions at any given moment, allowing investment managers to make effective use of liquidity, lower their financing costs, and reduce exposure to foreign exchange fluctuations. The best means of achieving these goals is through the automation of corporate actions processing.

Machiavelli's Caution for Project Managers

“And it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new."

Nicolo Machiavelli c.1505 (trans. W. K. Marriott)

The 7 Phases of a Project

1. Wild enthusiasm
2. Disillusionment
3. Confusion
4. Panic
5. Search for the guilty
6. Punishment of the innocent
7. Promotion of non-participants.

Your Suggestions Please…

Are you pleased with the results of a recent or current engagement with Venture staff and interested in sharing your experiences with others? Submit your suggestions to Annmarie Rogers via phone at 781.932.7544 or via email at arogers@venturefsg.com. Articles and/or interviews selected for publication will be entered into a drawing for a $100 American Express Gift Certificate.

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