

## Shareholder Identity Disclosure and the Need for a Secure Communication Channel

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### SRD2

Instant Actions is a secure communication platform for companies to respond to external communications from unvetted sources. It was conceived in response to the Shareholder's Rights Directive [SRD2](#) which updates the [Directive 2007/36/EC](#) and places an obligation on agents acting for investors to disclose personal data and positions to issuers when requested to do so if they hold more than 0.5% of a company's stock.

The directive was a response to the 2008 Financial Crisis which revealed that shareholders in many cases supported their advisors' excessive short-term risk taking and poor levels of 'monitoring' of and engagement with investee companies. The objective is to encourage more responsible and long-term investment. SRD2 is live from 4<sup>th</sup> September 2020.

The problem with the directive as it is worded is that it obliges intermediaries to check that the request to disclose shareholder identities and positions has originated from the issuer, but it proposes no industry-wide mechanism or infrastructure for intermediaries to make this check or to enable this sensitive and confidential information to be disclosed securely. There is no simple way to;

- Ensure that requests for disclosure come from legitimate sources (this is a specific requirement included in the SRD2 directive)
- Check that the requestor has the appropriate authority and;
- Respond through a secure channel so that the data you send does not fall into the wrong hands

Who owns a company is valuable information. Plenty of stock traders watch the activity of company insiders and major institutional shareholders. Investment banks have thrived on intermediating information about shareholders. Securities borrowing desks depend on brokers knowing who owns what so they can source the stock. The well-informed pore over stock ownership disclosure forms, looking for information on which to trade. As a result, it is almost certain that phishing for stockholder data will occur on the back of ostensibly legitimate requests for shareholder identity disclosure.

There are fines for non-compliance but these are insignificant in relation to the potentially catastrophic operational impact on banks or asset managers for inadvertent disclosure of their personal data either by accident or due to a phishing attack.

SWIFT has extended ISO 20022 to provide new SRD2 communications messages ([SWIFT See v 45-49](#)) that allow Shareholder Disclosure information to be transmitted in machine-readable format, but this does nothing to prove the source of a message, or prevent it from being manually changed if it is passed on through a chain of intermediaries as envisaged by the directive. The real need is for a platform for issuers or their agents (registrars etc.) to make requests direct to intermediaries and to which they can enrol to prove their identity. Identity is bound to any message so that it can be verified as the source of the message even if it is passed on through the asset servicing network.

[Instant Actions](#) is the outcome of a SWIFT 'Innotribe' collaboration between SWIFT and Codel and is intended to provide a new market infrastructure for companies to provide real-time, source accurate company information to the markets. It incorporates [Codel's digital notary](#) technology that provides data immutability and identity enrolment. The new platform provides;

- a company announcement service to provide structured data to the markets in source-accurate machine-readable form
- a service to check source identity for SRD2 SID messages that have already been announced
- a service to check the role or authority of the originating message sender
- a secure communication channel to respond to the originating issuer or author

## How does it work?

The solution incorporates the following;

### Phase 1 – SRD2 & Corporate Actions

- Website interface
- Publication platform for issuers to make push-only announcements
- 2-Way Message communication facility for issuers to communicate directly with known counterparties
- Identity checking and enrolment platform for both companies and individuals
- Cloud-based Secure Digital Vault for uploading and embargoing messages
- Notification system for counterparties to download communications from the Secure Digital Vault
- GDPR features to control and process data

- Immutable audit trails and dashboard provided by Codel

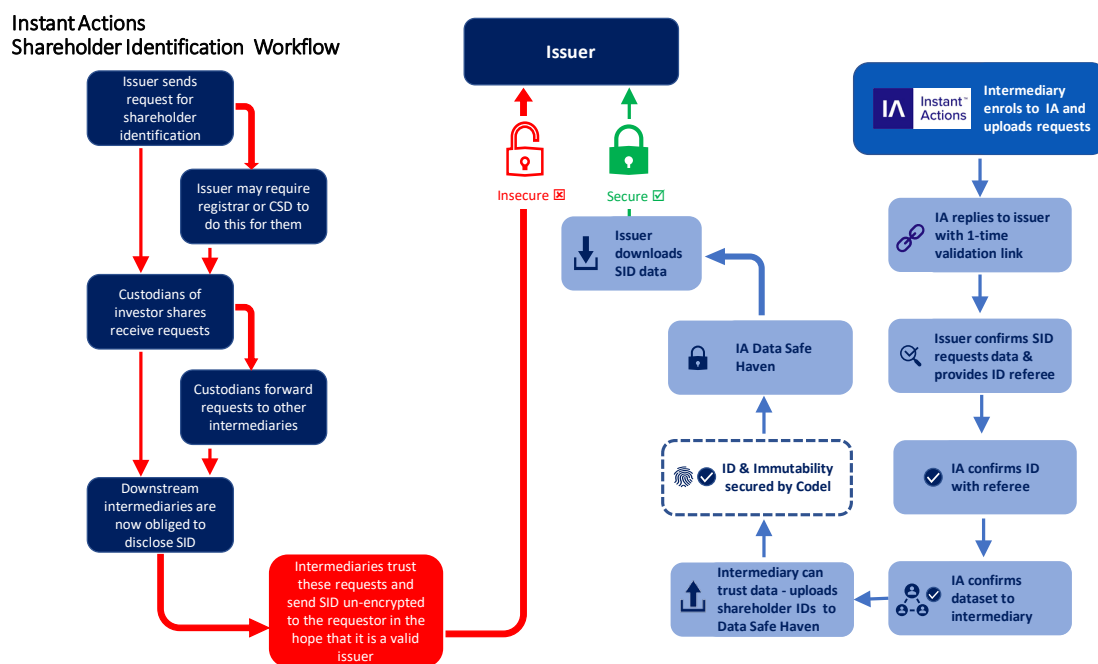
## Phase 2 – Extending security to third-party channels

Interface to SWIFT or other communication channels

Interface to social media platforms

Interface to web services that any service provider could use to bolt-on secure identity from properly vetted, known identities

## Graphic workflow for Phase 1



For more information please contact [enquiries@instant-actions.com](mailto:enquiries@instant-actions.com)

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