

Issuer Identity Checking & Referees - trust metrics for intermediaries to rely on identity for SRD2 shareholder identity disclosure

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SRD2 and Shareholder Identity Requests

From 4th September 2020, under the terms of the Shareholder Rights Directive (SRD2) you will start to receive requests from issuers or their agents (Registrars, CSDs, investor relations companies etc.) to disclose to them the identities and positions of your clients who hold stock in their companies. If these clients are nominee or holding companies you will need to forward the request onwards and if they do not respond to the issuer/agent direct you will need to aggregate their responses and reply on their behalf. [SRD2](#) updates the [Directive 2007/36/EC](#)

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. You will need to protect yourself from making inadvertent disclosure which could be catastrophic for the trust that your clients invest in you. You will need 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

SRD2 imposes an extremely sensitive new obligation to make shareholder identity disclosures, the significance of which has not yet been appreciated – even by the officers who drafted the directive. You could be exposed to data breaches on an epic scale. The fines imposed by SRD2 for non-compliance will really be irrelevant when taking into consideration the potentially catastrophic operational impact that inadvertent disclosure of the personal data of your entire client book could have.

Instant Actions is a new service that checks and scores source identity and authority of the company officer and provides a Secure Digital Vault communication channel for you to respond to the issuer securely.

Why do I need to check that a request has come from an original issuer source? Surely I can just check with the intermediary above me in the chain?

Unfortunately, this is not the case, even if it were not an obligation under the regulation to check that the request has originated from the issuer. There are a number of reasons for this;

- You will be relying on the due diligence of someone above you in the chain, over whom you have no control and upon whom you have to rely to have carried out their checks adequately. Making these vicarious checks will not absolve you from your responsibility and will do nothing to help should there be a dispute in the future about whose data breach it was.
- There is a small but real possibility that the preceding intermediary may make a mistake. You will not pick this up unless you go back to the source
- This mistake may actually be the intentional act of a corrupt insider, or malware that tricks you into sending sensitive data to the wrong address, at which point the breach has been made and you cannot rectify your mistake
- Finally, SRD2 states that information should be provided in machine readable format (SWIFT has come up with a very handy new set of ISO messages See v 45 – 49. However, only a few issuers are directly on the SWIFT network and many downstream intermediaries, who act for investors, may not be directly on the network either. The downward and reverse flow of information will require constant identity checking and is almost certain to occupy an inordinate amount of oversight

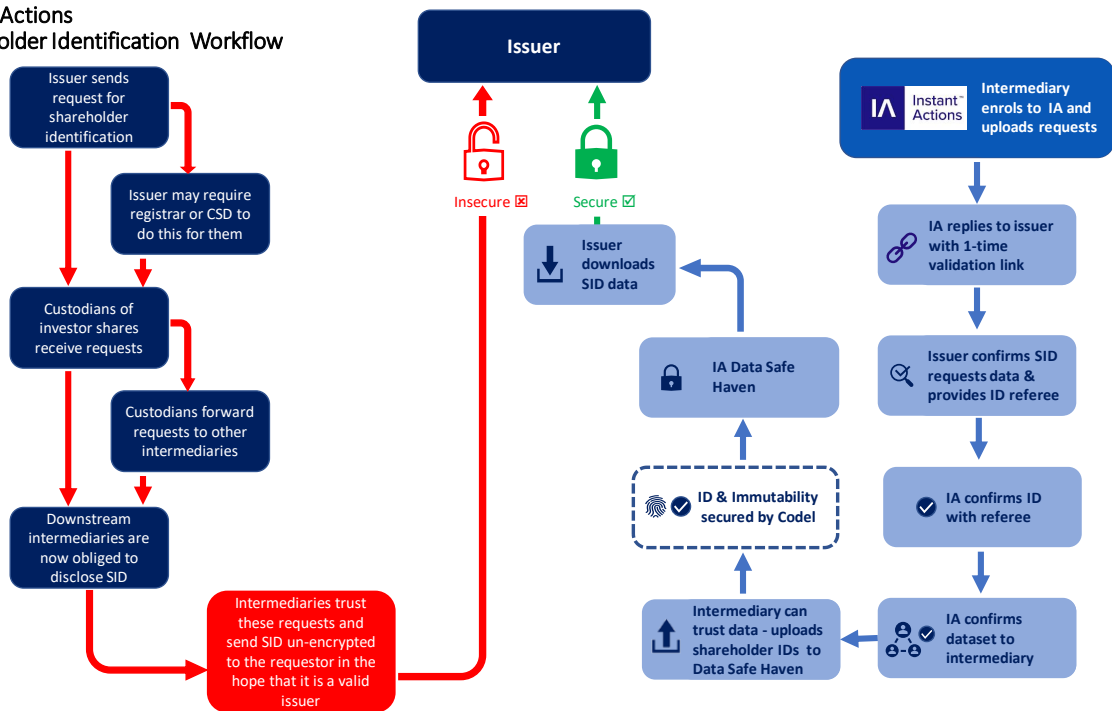
The upshot of all of this is that to be as certain as you can, you will need to make your own checks about source identity and the authority of the message author. Indeed, this is what a number of the large custodians have decided to do for themselves with all of the cost implications of employing new FTE's, processes and technology that this entails. However, you don't need to do this - you can outsource the solution to Instant Actions who can do it for you.

So how does Instant Actions check source identity - could I not do this for myself?

Of course, you can make the enquiries and satisfy yourself that the request has originated from the issuer and by doing so you will have at least complied with the regulation should anything untoward occur. As stated above however, it will not be good enough just to interrogate the intermediary before you in the chain of asset servicing. You will need to go right back to the issuer.

The following diagram shows Instant Actions cost-effective outsource service;

Instant Actions Shareholder Identification Workflow



And what are IA's Trust Metrics that Provide Comfort against the risk?

When you use IA, you provide us with all the requests you receive from issuers or intermediaries before you in the chain. We check the reply addresses contained in the messages and contact and interview the original source to check that they are who they say they are, applying a risk score to the quality of the information we get against a set of pre-set rules designed to vet identity. We only need to interview the source once, because once they have been enrolled to the IA platform, they have a permanent electronic identity that has been vetted and checked. We can use this for future validation checks. In future we expect issuers to enrol to our platform and make their requests directly through Instant Actions which will make it easy to comply with the 24-hour turnaround period prescribed by SRD2. However, as an interim solution from 4th September, and if you appoint IA to act for you, we will notify the issuer that you have requested us to verify their source identity on your behalf and you do not need to respond until they confirm their identity. We keep comprehensive audit trails of this so that you can satisfy your clients and the regulator that you have employed the very best security measures possible and could not have been the source of a data breach should one occur in the future.

In advance of sending shareholder identities, Instant Actions agrees with you the identity score that must be achieved before identities are sent to the issuer, and provides you with the Secure Digital

Vault communication channel from which issuers can securely download the shareholder identities they have requested.

For more information please contact: enquiries@instant-actions.com

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