



**Bondholder Communications:  
Investor Proposed System Requirements**

# Bondholder Communications: Investor Proposed System Requirements

## Objectives

By identifying, analyzing, explaining and creating solutions for the operational, legal and regulatory issues that concern industry participants as it pertains to communication with bondholders and among bondholders, the Structured Finance Association (the “Association”) seeks to:

- Evaluate alternatives and recommend a solution to address the challenges of the current communication framework in order to:
  - Provide investors, who are registered on the platform, with unimpeded ability to communicate with other certificateholders, including having equal and direct access to other certificateholders of the same securities (on an anonymous or known basis, as chosen by each individual certificateholder);
  - Retain investor confidentiality/privacy, if they so choose;
  - Increase the ability of issuers and bondholders to communicate directly;
  - Improve and streamline the voting and consent solicitation process for the benefit of all market participants, including issuers, trustees, investors and deal agents; and
  - Streamline the beneficial owner authentication mechanism.
- Draft [and endorse] system criteria/specification for bondholder communication platforms that facilitates the goals outlined above.
- Review transaction parties’ roles and responsibilities as it relates to bondholder communication.

## Overarching Principles (as proposed by the Association investors)

- This set of objectives and specifications was developed by the Association investor members
  - Investors believe deals should incorporate a communication platform to facilitate current transaction parties’ roles and responsibilities as they relate to communication with bondholders - not replace those roles and responsibilities.
- For all transactions issued after [adoption], a communication platform shall be designated by the [Issuer/Sponsor together with the Trustee] and shall act as third-party service provider(s) to the transaction parties.
  - The designated communication platform shall be disclosed in the Offering Memorandum/Prospectus;
  - Any changes to the communication platform provider shall be disclosed in a [monthly servicer report] that is at least [forty-five (45)] days prior to the date the change takes effects.

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- The communication platform shall support notifications sent by transaction parties, communication amongst authenticated bondholders and voting process for consent solicitations
- Each transaction should provide investors free access to the designated communication platform.  
[Discuss “deal-level access” paid by the transaction cashflows: Investors believe this is a viable solution to address their concern that a fee system charged to each individual investor will limit participation, especially biased against smaller investors, thereby negating a major objective]

## System Criteria/Specifications for Bondholder Communication Platforms

System-wide Criteria
<p><b>Security.</b> Protect the integrity of records/data with industry leading security – see “SECURITY” section below.</p>
<p><b>Usability.</b> Provide straightforward, user-friendly navigation for administrators and users.</p>
<p><b>Open architecture.</b> Built on open architecture that integrates with other platforms and software used by industry participants so administrators and registered users can easily integrate necessary reporting, monitoring and retention.</p>
<p><b>Wide database support.</b> Support broad range of databases and platforms so users can simply and seamlessly upload necessary data from multiple sources of information.</p>
<p><b>Real-time data.</b> Deliver real-time data directly from platform.</p>
<p><b>Mobile support.</b> Allow users platform access and use across a variety of devices, networks and platforms used by industry participants.</p>
<p><b>Scalability.</b> Capable of handling increasing platform growth, including:</p> <ul style="list-style-type: none"> <li>- Increasing number of organizations, users and securities.</li> <li>- Enhancing the system by adding new functionalities.</li> <li>- Increasing size of uploaded files.</li> </ul>

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<b>Platform reliability.</b>
<b>Vendor credibility &amp; longevity.</b>
<b>Technical support.</b> Include [24 x 7] customer support.
<b>Pricing flexibility.</b>

### Access Criteria

<b>User-friendly.</b> Access to the platform should be user-friendly.
<b>Simple registration for access to public information.</b> Enable all transaction parties to register on platform according to their industry participation type, including investor, lawyer, advisor, broker/dealer, trustee, issuer/manager, underwriter, custodian and other.
<b>Multi-factor authentication.</b>
<b>Administrator control/security.</b>
<b>User access rules/security.</b> Allow designated employer administrators control of platform access for its employees on a per-user basis through a role-based menu system, where administrator grants access rights at group, role or individual levels. Allow administrators to easily revoke access.  For example, some potential investors constituency options: read-only role; read and write role; authority to vote role; review role of selected employees, administrator role; etc.
<b>Bond-level access rules/security.</b> Allow designated administrators control of application level access/security on a bond-level basis  For example, an employer may want to grant some employees “write”access for a limited number of securities but not all.
<b>Customizable user interface.</b> Allow registered users to customize platform notifications and alerts, including: <ul style="list-style-type: none"><li>- Allow registered users to record lists of “interested securities” and/or “owned securities”.</li></ul>

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- Ability for registered users to upload lists of securities to follow and/or list of owned securities.
- Provide efficient search mechanism to facilitate proper and consistent tagging of securities.
- Allow registered users to select notice types and information types they'd like to receive.
- Allow registered users to select from various notification/communication delivery options (i.e., email, mobile application alert, etc.).
- Allow registered users the ability to receive alerts for list of tagged securities ("interested securities" and "owned securities").

## Authentication of Identity

**Support multiple methods of verification and authentication hierarchy**, including:

- Users register with their corporate email address and click an email confirmation link to verify that email address belongs to them. Email domain name is matched to industry participation type by platform operator.
- Access a global investor directory, which can rank participants' identities.

**Identity/Role Validation.** Authenticate corporate entities via corporate verification process, [exact process to be discuss].

- Allow corporate entities to designate corporate administrators.
- Allow corporate administrator to verify individual employee users and certify users' industry participation type.

**QIB and Accredited Investor Status [Verification].** Validate, via reasonable steps, that corporate and individual investors qualify as accredited investors and/or as QIBs.

**[Authenticate parties' beneficial ownership of a deal through verify docs request or other appropriate avenues].**

- Enable re-verification process to ensure investor list does not grow outdated.
- Allow for time efficient, easy authentication for record date purposes.

*[See Bondholder Authentication Methodologies section]*

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**Asset Ownership Authentication: Signed Affirmation.** Collect and review signed document attesting to an investors status as a beneficial owner of a particular asset, or of its intent to [potentially] purchase asset. This method should allow for electronic execution of affirmation [, if legally sufficient].

**Asset Ownership Authentication: Document Production.** Collect and review documents attesting to an investor’s ownership status (such as a holding statement, trade ticket, etc.) This method should allow for the uploading of electronic or scanned copies of the documents.

**Medallion Guarantee.** Collect and review medallion guarantees delivered by custodians; where the medallion guarantee is a document that verifies the beneficial ownership for their investor client by the custodian stamping and signing a document listing the asset and amount of holdings as of a given date

- Facilitate creation of electronic medallion guarantee documentation process which Trustee can print off and have stamped by guarantor.

**Ensure appropriate platform behavior by registered users via operational scores.**

### Communication: Notification from Transaction Parties

**Anonymous communication option.** Provide all users with capability to communicate on an anonymous basis for each individual security, if so chosen.

**Notification Posting.** Support user-friendly bulletin board type posting, by designated transaction parties, of various types of notification:

- **Notification type designation.** Support designation of various Notification Types; such as, “Voting Requests”, “Consent Solicitations”, “Servicer Reports”, “Response to Investor Questions”, “Investor Communication Requests”, “Annual Servicer Compliance Certifications”, etc.
- **Notification management.** Enable full control over notification creation, indexing and publication with version control, audit trails and secure viewing features.
- **Permission designations.** Provide Issuer/Sponsor administrator with ability to designate transaction parties and their respective registered users with the ability to post notification which may be limited, at the Issuer/Sponsor administrator’s option, to select Notification Types.
- **Recipient designations.** Provide Issuer/Sponsor administrator with ability to limit the group of registered users that receive any specific notification (important for 144A and private transactions).

**Notification History.** Provide access to historical notices:

- Allow all registered users access to all prior public notices and public communication for any public security
- Allow registered users designated by the Issuer/Sponsor administrator access to all prior notices for any non-public security

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Provide capability for Issuer/Sponsor administrator of non-public securities to designate access to individual registered users or groups of registered users (i.e., groups such as “any validated QIBs”, “any validated accredited investors”, etc.).

### Communication: Messaging between Industry Participants

**Communication Platform.** Provide secure platform for communication among investors and between investors and issuers, trustees and other transaction parties, on an anonymous or disclosed basis, as chosen by the user.

**Sending messages to designated recipients.** Enable sending of messages by all registered users, who have appropriate authority to send messages for such security (see “User Access Rules”), *on an anonymous or disclosed basis*, to a self-selected list of recipients where such select recipients can be either limited or publicly available, such as:

- (a). a public message delivered system-wide;
- (b). a public message to any party with a designated “*interest in the deal*”;
- (c). a designated Group(s) of recipients (such as limited to only validated beneficial owners, or all “interested” investors, or other groups to be determined);
- (d). designated transaction party(ies); or
- (e). selected individual registered user(s)

[where public messages are only available for use on public deals.]

**Responding.** Enable authorized users, on an anonymous or disclosed basis, to respond to communication sent to them: allowing such user to respond to the entire group on the distribution list or to a sub-segment of that list.

**Delivery tracking.** Support tracking of message delivery so parties know whether the message was delivered or mis-delivered as well as which participants received it and which participants opened it and when (where only the anonymous ID is disclosed for those participants who want to remain anonymous).

**Contact request.** Enable users engaged in conversation to request each other’s contact information in order to take discussion offline if so desired, including feature that only discloses contact information if and when both parties agree.

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**Multiple technologies.** Allow for secure messaging/instant messaging/chat rooms and other technology forum to the extent they meet the retention and reporting criteria.

**Sophisticated search capabilities.** Support user friendly, efficient directory of chat rooms and other communications.

**[Independent Monitoring.** Establish independent (not self-regulated) monitor of substance of communication, to prevent inappropriate messages].

### Communication: Voting Process

**Voting Notification.** Enable Trustees or other authorized transaction party to send notification to beneficial owners that an action is required. This criterion shall meet the criteria listed under “Communication: Notifications from Transaction Parties”.

**Collection of Votes.** Facilitate the distribution and collection of investor votes by Bond Administrator, Trustee and any other designated transaction party.

**Ballot distribution.** Provide feature to create and/or download electronic ballots for distribution to validated bondholders.

**Tracking votes.** Enable authorized transaction party(ies) to track distribution, receipt and submission of voting documents.

**[Tally votes.** Tally votes received by bondholders].

**Record-keeping.** Full audit log of all record/data actions taken with respect to the voting process.

**Notification Alerts.** Send email notifications to designated investors that voting action is required; re-send notifications on designated dates and times, as designated by the authorized transaction party, if investor has not opened message contents online or investor has not yet voted.

**Enable Trustee or other authorized transaction party to notify validated bondholders and other designated transaction parties of results of voting.** This criterion shall meet the criteria listed under “Communication: Notifications from Transaction Parties”.

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## Record Keeping, Tracking and Monitoring

**Archiving, disaster recovery, backup and restoration.** Store copies of records with daily tape backups in a secure off-site redundant data center.

**Retention/disposal schedule development.** Industry to discuss the critical issue of storing the right amount of data for the right amount of time.

- All data records and format (doc, PDF, MP3, etc.) should be addressed.
- All communication devices should be addressed (mobile, pc, application, etc.).
- Adopt industry convention as baseline as well as provide ability to incorporate corporate preferences/overrides to those conventions, when needed.

*For example, individual investors may want to have capability to dispose of asset holding information stored on the platform on a more frequent basis or a institution may have a more conservative retention policy than the overall industry practice.*

**Activity tracking and auditing.** Full audit log of all log-on/log-off, communication, record/data actions taken (who added, reviewed, changed and/or deleted records as well as when and what action was taken) until time period consistent with the retention/disposal schedule (see “**Retention/disposal schedule development**” criteria).

**Reporting/downloadable record-keeping.** Allow administrators to obtain and download real-time, regular and frequent reporting for its Authorized Records.

- **All encompassing.** Address any and all communication, on all platforms/devices; all record/data actions and any other actions taken by registered users.
- **Entity-specific data access.** Limit monitoring and reporting to those records that pertain to such entity.
- **Self-service capabilities/Ad-hoc reporting.** Allow users capabilities to create their own reporting.
- **Interoperability/operation integration.** Function seamlessly with industry supervision and recordkeeping systems in a readily-accessible, downloadable format.
- **Open architecture.** Built on open architecture that integrates with other platforms and software used by the broad base of industry participants so Administrators can easily integrate necessary reporting, monitoring and retention.
- **Secure download.** Incorporate industry leading data and cyber security to protect data records.

**Management dashboard.** Access to detailed reports and dashboards for compliance and governance by providing “management users” real-time view of designated user activity.

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### Security

(Protect the integrity of records/data with industry leading security)

**Secure access controls.**

**Secure data controls.** Data protected at rest and in transit – full encryption.

**Security of content shared.**

**Operations security.**