

## **SmartSTAMP: An Industry Primer**

Regular readers of this newsletter will remember the article published in the October 2017 issue titled, “STAMP, SVP, UniversalSTAMP & SmartSTAMP: What’s the Difference?” Within that article, we introduced the concept of UniversalSTAMP: an enhanced Medallion Signature Guarantee Program designed to – among other things – extend the same protection afforded by today’s Medallion Signature Guarantee (“MSG”) to the digital realm by means of its “SmartSTAMP” technology. But, what exactly is SmartSTAMP and how will it work?

### **Background**

For over 26 years, the securities processing industry has relied on the Medallion Signature Guarantees issued by Securities Transfer Agent Medallion Program (“STAMP”) Guarantors to protect themselves and the rightful owners of securities against fraudulent transactions.

Currently, Guarantors affix an MSG imprint by the means of a “Medallion” hand stamp. MSG imprints possess overt and covert security features designed to deter counterfeiting. The MSG imprint’s ink includes a security compound that is detectable only by the authentication equipment used by Transfer Agents. Transfer Agents also use the imprint’s bar code technology to determine its current status, thereby reducing the likelihood that a missing Medallion will be used to further improper activities.

While this process continues to work well for securities and instructions in physical form, the reliance on stamps, paper documents, and physical verification devices is untranslatable to the transfer, clearing, and settlement processes for those transactions that could be completed utilizing documents existing only in digital form. As the securities industry moves ever closer to a paperless environment, a process that permits the application of an MSG onto electronic forms and documents by the use of an electronic MSG imprint (“e-MSG”) is the next logical evolution of this essential industry function.

### **The SmartSTAMP Imprint: Industry Standard Technology with an Eye Toward the Future**

The SmartSTAMP e-MSG “imprint” itself, is a certified encrypted hash-code algorithm that is embedded into a PDF rendering each file tamper-evident (i.e. modified files will fail authenticity verification) and rendering every transaction unique and traceable to the Guarantor. SmartSTAMP uses Industry Standard Encryption Technology to ensure compatibility with current IT infrastructures, which should facilitate systems integration for Guarantors and Transfer Agents alike.

Guarantors will have the ability to create an e-MSG imprint using one of two methods:

- By using a SmartSTAMP Medallion imprinting device, which is capable of producing either a wet-MSG or an e-MSG as the situation demands.
- By using SmartSTAMP All-Digital, a computer application that employs login credentials and two factor authentication. This app can only produce an e-MSG.

Whether generated by a SmartSTAMP Medallion or by the SmartSTAMP All-Digital app, the resulting e-MSG imprints are equivalent and can be authenticated at any point during the electronic document's life by a simple click of the mouse.

Importantly, the SmartSTAMP e-MSG is "an imprint" as defined within, and covered by, the new UniversalSTAMP Program Documents. This will allow UniversalSTAMP to adapt or modify the technology used to create the e-MSG imprint in response to evolving technologies. In other words, if distributed ledger technology (or any other relevant technology, for that matter) is deemed to be commercially viable at some point in the future, it can be considered by UniversalSTAMP. Of course, any new technology would have to be clearly superior to the method in use at the time.

### **Industry Steering Committee Established**

Medallion Signature Guarantees are utilized by virtually every organization involved with securities processing, so any e-MSG solution will need to be fully vetted and will require broad industry support and consensus. To that end, the Securities Transfer Association has established a Steering Committee to assess the viability of implementing SmartSTAMP.

The Steering Committee is comprised of representatives from each of the major segments of the securities processing industry, including two large Equity Transfer Agents, a large Mutual Fund Transfer Agent, two large Broker/Dealers, a large Commercial Bank, the Securities Transfer Association, Hampton Technologies, and Kemark Financial Services. During its first two meetings, the Steering Committee affirmed its purpose and objectives, began its evaluation of the various elements of UniversalSTAMP and SmartSTAMP, and discussed broad implementation issues.

If the Steering Committee ultimately determines that the UniversalSTAMP and SmartSTAMP concepts do indeed have merit and should move forward, then it will form several "Working Committees" to consider and confront any implementation issues and obstacles. The Working Committees will recruit their members from a broad population of industry participants as we strive to include as many business sectors as necessary.

While their exact numbers and missions have yet to be determined, the Working Committees will likely tackle such tasks as:

- Evaluating the current SmartSTAMP Prototype.
- Considering necessary modifications, as well as alternatives.
- Overseeing the remaining applications development.
- Considering and overcoming potential processing, IT, regulatory, and compliance implementation barriers.

Clearly, we are only at the beginning stages of what will likely be an extended period of vetting, discussion, and development. We intend to provide periodic updates in future issues of this publication as the process unfolds.