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Protecting Investor Privacy: Why the NOBO/OBO Framework Matters

Part two of a series on trade ownership

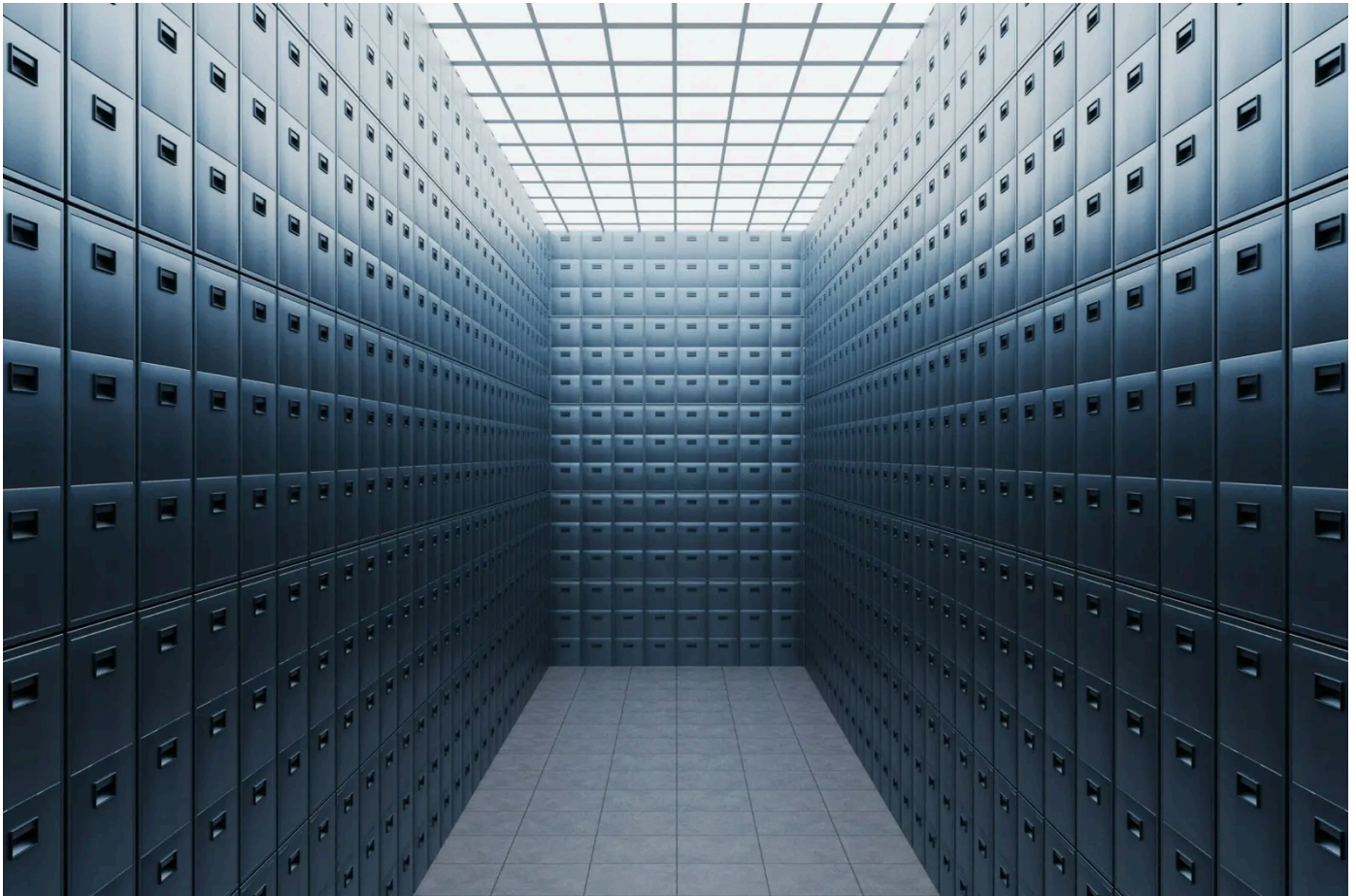
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By:

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Issue:

Privacy & Data Protection



SIFMA members have a strong interest in ensuring shareholder communications and the proxy voting system continue to operate in a reliable, efficient, and credible manner. Central to that goal is the right of investors to control their own personal information. The Non-Objecting Beneficial Owner (NOBO) and Objecting Beneficial Owner (OBO) framework ¹ is designed to protect investors. SIFMA's position remains clear: investor privacy and choice must be protected. ²

In this blog, we will explain:

- The differences between NOBO and OBO,
- Why SIFMA supports the default standard as the better option for investors, and
- The importance of investor education on this topic.

Foundation: What NOBO/OBO Means for Investors

When an investor opens an account with a broker-dealer, they entrust that institution with sensitive personal and financial information, which includes what they own, how much they own, and who they are. Pursuant to SEC rules, ³ the NOBO/OBO designation determines whether that information can be released to the issuers of the securities the investor holds.

A NOBO preference directs their intermediary to release their name, address, and share position only to the issuer upon request. An OBO instructs their intermediary to keep that information private. ⁴ Critically, regardless of which designation an investor holds, they will still receive all required corporate communications, the difference is simply whether the issuer learns who they are.

The Default Standard: NOBO Is the Rule, OBO Is the Choice

Investors are classified as NOBOs by default. Obtaining OBO status requires an affirmative direction to the broker. SIFMA strongly supports this default. Proposals to add additional "consent" requirements are unnecessary and unproductive. Adding complexity at account opening risks confusing investors about what they are consenting to, making it harder, not easier, to

facilitate meaningful issuer-shareholder communication. Better investor education at account opening is the right approach, not a change to the legal standard.

The Bright Line: OBO Means Private

For the broker community, OBO status is a bright line. When an investor elects OBO designation, it means exactly what it says: their information is not shared with issuers. This is not an administrative preference but rather it is a legal protection reinforced by privacy law.

Investors place a high priority on protecting their personal and trading information and rely on brokers to safeguard it. Certain high net worth and institutional investors oppose removing the OBO designation to avoid disclosures that could infer their trading strategies.

Proposals to provide OBO data for “limited” purposes, such as regulatory communications, fail to respect this. Once disclosed, anonymity is lost. There is no such thing as a limited disclosure that still preserves the investor’s privacy election.

The NOBO List: Communication Has Limits

Issuers may obtain NOBO lists and use them to send annual reports directly to those investors. Furthermore, issuers may use details from the NOBO list to identify additional publicly available information, enabling them to contact investors for purposes such as meeting-related reminders. Proxy materials, however, must go through the broker for voting entitlement. SIFMA supports this boundary. Allowing direct proxy distribution to NOBOs would create a confusing dual-track system, introduce tabulation errors, and increase overall cost and complexity. It is important to note that regardless of the designation, the shareholder will be provided with the important information from the issuer.

The Infrastructure: Why the Intermediary System Works

The current broker-dealer infrastructure delivers real benefits. It limits cybersecurity exposure by reducing the number of entities holding sensitive investor data and provides a trusted source for communications and other shareholder actions. It has also produced significant savings: industry investment

in e-delivery has reduced issuer printing and postage costs significantly. Proposals to bypass this system would add cost and complexity, not reduce them.

The Path Forward: Education

SIFMA supports better investor education about NOBO/OBO choices, at account opening and throughout the client relationship. That is different from changing rules to expand issuer access to shareholder data. The framework exists because Congress and the SEC recognized that investors have a legitimate interest in controlling their personal financial information, and that brokers have a legal and ethical obligation to protect it.

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Related Resource



Non-Objecting Beneficial Owners & Objecting Beneficial Owners, Explained

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1. See 17 CFR § 240.14a-13; 17 CFR § 240.14b-1; and 17 CFR § 240.14c-7.
↳
2. Non-Objecting Beneficial Owners & Objecting Beneficial Owners, Explained, SIFMA (May 20, 2021), <https://www.sifma.org/news/blog/non-objecting-beneficial-owners-objecting-beneficial-owners-explained>.
↳
3. See 17 CFR § 240.14a-13; 17 CFR § 240.14b-1; and 17 CFR § 240.14c-7.
↳
4. *Id.*
↳

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