

Shareholder Rights Directive – it's time to act

Demi Derem of Broadridge Financial Solutions explains the four reasons why SRD II is now a high priority for intermediaries on a global basis

If you are a bank, broker or wealth manager that handles European shares, the newly updated Shareholder Rights Directive regulation hits September 2020 and will impact you.

The countdown is on, creating a growing sense of urgency as firms plan for this mandatory change.

The updated Shareholder Rights Directive (SRD II) represents the biggest shift in European corporate governance standards and processes for many years.

Throughout the investor communication chain, the Directive aims to increase the transparency of communications and drive shareholder engagement levels, while also aligning to the wider trend of investors seeking to take a more active stewardship role in the companies in which they invest.

For intermediaries—the banks, brokers and wealth managers—SRD II has the potential to be particularly onerous. It mandates that information must be shared more quickly, accurately and transparently, including meeting information, vote processing and confirmation, both pre- and post-meeting. It also includes a new requirement to identify shareholders when requested by issuers.

SRD II is in the process of being transposed into national law by European countries—intermediaries are faced with a compliance deadline of September 2020.

Four things you need to know

1. Which intermediaries are impacted?

While SRD II impacts all participants in the shareholder communications value chain—from issuer to investor—the impact on intermediaries is likely to be one of the greatest. It applies to firms across the retail and institutional securities services spectrum including retail banks, private banks, investment banks, brokers, custodians, wealth managers and equity advisors.

Globally, the Directive is far-reaching for those focused on regulatory compliance in markets in which they operate or make investments—it impacts all firms that hold shares in EU-based issuers listed on regulated EU markets, irrespective of whether the firm is based inside or outside of the EU.

2. Offering a proxy voting service is now a requirement

Some firms, such as the global custodians, have a proven track record for servicing the proxy lifecycle, often supported by specialist service providers. However, for many more that don't currently offer this service (or only offer a service to a sub-set of their clients), SRD II is a more fundamental wake-up call to action that mandates the first-time or complete provision of electronic proxy voting services.

Even firms with established in-house proxy capabilities need to take action. For example, the Directive requires the distribution of meeting agendas in stricter timeframes, vote reconciliation on a daily basis, and vote processing “without delay”. Firms will also need to support all aspects of vote confirmation, including the timely e-confirmation of receipt and dissemination of post-meeting confirmation that the vote was counted, where requested. Some are assuming a “business as usual” approach; however, this may be difficult to explain when regulators start testing for compliance with the new rules.

3. Shareholder disclosure: security, authentication and data handling

As part of SRD II, there is a new requirement for intermediaries to identify shareholders when requested to do so by issuers. The directive will enable many issuers, for the first time, to build up a clearer picture of their shareholder base. However, intermediary firms are required to process these requests within 24 hours, while at the same time verifying the legitimacy of these requests.

Security and the need to remain compliant with multi-jurisdiction data handling rules are fundamental to a successful SRD II programme. Cybersecurity and encryption requirements add complexity throughout the end to end chain of communications, requiring broad domain knowledge and an ability to address potentially challenging data needs.

Consider, for example, the scenario where shareholder disclosure requests are received from multiple issuer agents in a range of markets.

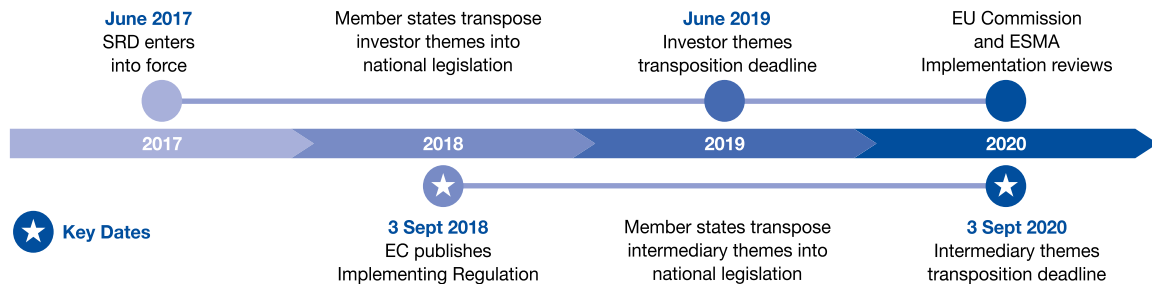
The intermediary receiving the requests will need to be confident in the authenticity and legitimacy of each request before disclosing a potentially significant amount of sensitive client data to a third party organisation. This situation will be further compounded if the intermediary is part of a longer chain of custodian intermediaries.

4. Fintech innovation for SRD II

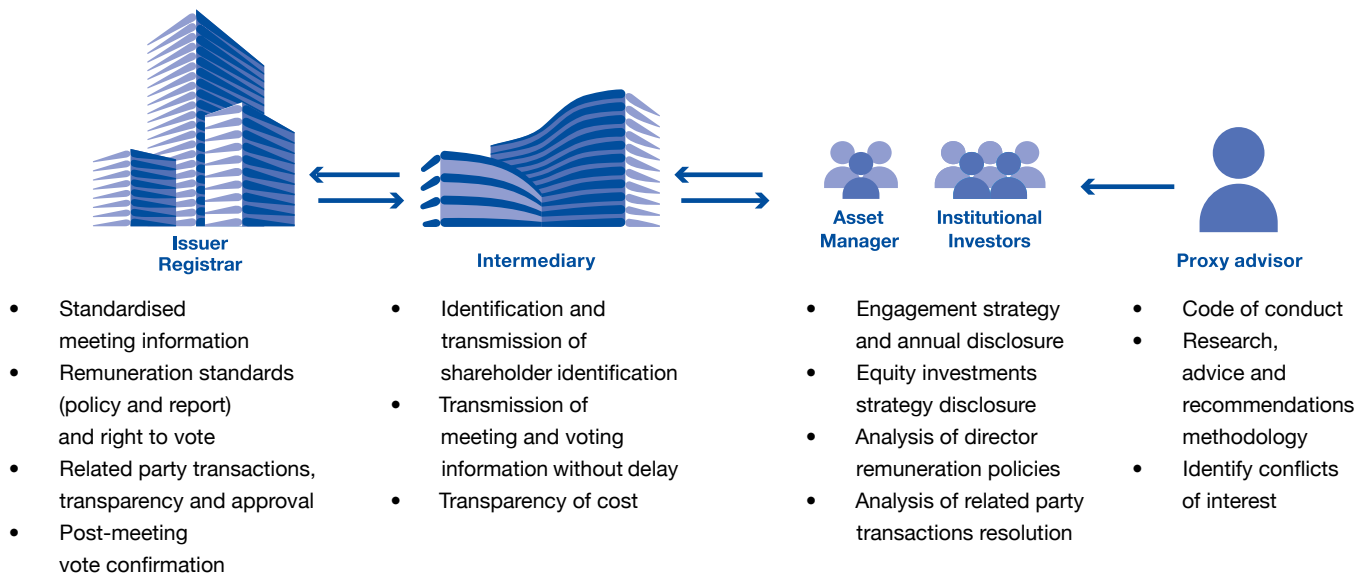
As a neutral and independent service provider, Broadridge continues to invite discussion with all participants throughout the investor communications lifecycle, and across all regions. We have announced our extended global proxy solution, geared to support all types of intermediary—retail and institutional—including those requiring a fast-track, first-time proxy capability

that solves SRD compliance in all markets, as well as those firms looking to find cost-effective solutions in order to respond to same-day agenda and vote communications and electronic vote confirmation. We have also announced a new blockchain-based Shareholder Disclosure Hub to enable intermediaries to fulfil their disclosure obligations in all EU markets within 24 hours in response to issuer requests, as required under SRD II.

The deadline for SRD II compliance is fast approaching



Significant impact across the investor communications chain



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