SRD II – the industry state of readiness

For intermediaries, the updated Shareholder Rights Directive (SRD II) remains on course for implementation in September.

Having recently declined the collective request of 11 high-profile trade associations seeking a year-long postponement of SRD II's compliance deadline, the European Commission continues to require intermediaries – and here I include banks, brokers, wealth managers, CSDs and more – to remain on course and be ready by 3rd September of this year.

Reassuringly, given SRD II's importance as the most significant initiative for advancing European corporate governance for many years, the industry's state of readiness would appear to be moving forward with good momentum albeit with some levels of self-qualification.

We're aware of many firms – custodians, large banks and brokers and other infrastructure providers, that have had plans in place for some time. Indeed this is backed up by a Broadridge industry poll in May 2020 in which, out of over 140 respondents from impacted firms spanning a range of intermediary types, 90% felt they would be either ready for September 3rd, or at least knew what was required of them in order to be so.

The above poll was conducted before the EC's reaffirmation of the September deadline. While we are aware of further attempts to delay the September 2020 go-live date, we strongly recommend that firms now focus on executing their SRD II readiness plans with urgency. For those that are still playing catch-up, a fast-track comprehensive outsourced solution may well be the most viable option at this stage.

Like other regulatory and mandatory market changes before it, SRD II will undoubtably fall short of delivering a fully harmonised approach across in-scope jurisdictions, which in turn will add to market complexity. For example, although the updated ISO20022 is recognised by many as the only SRD II fit-for-purpose messaging type, the lack of clarity around a specific message format leaves the matter open to interpretation and variance.

More fundamentally there are a vast array of complexities to manage. The very definition of 'shareholder' varies across member states, and the fact that member states have been given the freedom to go beyond SRD II-defined minimum requirements in their own transpositions will inevitably fuel divergence and create customisation challenges for intermediaries that need to support a cross-border offering.

'Without delay' processing also means different things to different intermediaries and has not been fully defined in most markets; local requirements such as powers of attorney have not yet been addressed; to cite just two further examples. Therefore solution agility, through automated market-based rules, will play an important role in managing the complexities and nuances for any impacted intermediary.

SRD II represents a significant opportunity to improve not just transparency and engagement but also to address operational inefficiencies and achieve greater levels of automation through standardisation. By now, firms should be close to having a market-ready solution that addresses their new or enhanced proxy voting needs and shareholder disclosure responsibilities. Participating in the debate around standardisation and harmonisation is also critical if we are to collectively address some of the remaining challenges. I encourage impacted firms to take an active role, and have a strategy for agile implementation as regulation and markets evolve.

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