By early September 2020, the Shareholder Rights Directive II (SRD II) will be in force in all EU member states. It is the latest European Directive affecting a plethora of actors within the securities markets - including custodians, intermediaries, Central Securities Depositories (CSDs), issuers and their agents.

Its aim is to encourage long-term shareholder engagement and enhance transparency between issuers and investors. Its main focus is shareholder disclosure requests and Annual General Meetings. The objective of SRD II is to improve European financial stability by boosting shareholder loyalty and limiting those risks that are perceived to be linked to short term and speculative behaviour. With SRD II, issuers will have a better knowledge of their investors, they will be able to better communicate with them and can expect greater attendance and engagement at AGMs.

In this article, we speak to Dan Toledano, Product Manager in Euroclear’s Product Core Europe team about what the new Directive means for financial intermediaries and what they need to do to meet its requirements.

**Q: What is the wider context around SRD II? Why has this new regulation come about?**

**A:** The first version of the SRD came into effect in 2007 just before the onset of the global financial crisis.

A revised version (SRD II) was issued in 2017 with regulators wanting to put the right conditions in place to encourage and promote long-term trust in the relationship between issuers and investors while impeding speculative behaviour, especially in crisis situations.

Because of the way the market is currently organised, there can be up to four or five layers of intermediaries between the issuer and the investor (CSDs, custodians, sub custodians etc). There is often an anonymity between the two. Moreover there has also been traditionally very little participation from retail investors at General Meetings despite these events representing a major opportunity for investors to have their say. SRD II fundamentally wants to change that.

“If the directive achieves its objective, it will transform the relationship between issuers and investors.”

Dan Toledano, Product Manager, Euroclear
Q: What do you think its effects will be?

A: The directive sets out the principles but the Implementation Regulations, which were issued in September 2018, actually set out a technical & operational framework.

We expect this framework to act as a trigger for the market to start investing in solutions that will allow it to align with the objectives of SRD II. This will streamline communications flows around transparency and AGMs while helping the market cope with the expected increase in volumes and reduce the costs borne by financial intermediaries and issuer agents.

Q: Would you call this a systemic change?

A: In a way yes. If the directive achieves its objective, it will change the relationship between issuers and investors from one that was remote and optional to something that is transparent, regular and compulsory. It is a big change. However, the wider objective of the directive, namely a change in investor behaviour will not be met at once.

Q: What will custodians and other intermediaries be required to do?

A: There are five main requirements that are set out under the directive, if you hold SRD-eligible securities.

Firstly, you will have to answer disclosure requests sent by European issuers, in accordance with the data and the timing (generally one day) mandated by the directive. Then you must relay the same disclosure requests to other custodians in your books (if any). You must relay general meeting notifications to your clients who hold positions in the relevant security. You must allow your clients to vote and transmit their voting information on a continuous basis to the issuer or its agent. And lastly, you must relay to your client the confirmations of receipt and of voting sent by the issuer.

Q: How can Euroclear help clients meet all these new requirements?

A: Through Euroclear Bank and the Euroclear group CSDs, we already offer a number of services that deal with Shareholder Disclosure Requests and AGMs.

We are currently defining our future offering, as well as considering additional services for issuers/agents and intermediaries to facilitate compliance by the market in general.

By taking the opportunity presented by SRD II, we aim to bring concrete enhancements and added value to the market.
What is the timeline of the SRD II?

On 3 September 2018, the EU published the implementing regulations of SRD which provide the detailed provisions and the obligations of issuers and financial intermediaries. All member states must begin transposing SRD into local law in June 2019. It will be in force in all EU member states by 3 September 2020.

What does it apply to?

SRD applies to equities that are issued by companies that have their registered office in the European Union and that are admitted to trading on a regulated market situated or operating within the European Union. When the directive is transposed into local markets, member states may decide to further extend the scope of SRD II.

Who does it apply to?

SRD has an extra territorial scope, meaning that it applies to all financial intermediaries holding SRD eligible securities, wherever they are located - either in Europe or outside Europe. Therefore, any Euroclear client holding listed equities from European issuers needs to comply with SRD II provisions.

How does it work in practice?

SRD II will change the processes you currently use to answer shareholder disclosure requests and general meetings. Such processes are currently not harmonised and are often handled in a non-STP manner. SRD II will introduce a single, harmonised way to process such events across Europe, using a single set of data and ISO standards. It is foreseen that most of related messages will be in an ISO 20022 format.

What is Euroclear doing to help custodians and other intermediaries?

Euroclear Bank already offers extensive shareholder disclosure, AGM, and voting services for the 17 European markets impacted by SRD. The Euroclear CSDs also offer issuers a number of services to facilitate shareholder disclosure and general meetings. All these services will be adapted and enhanced to make them fully compliant with SRD.

In particular, Euroclear will make sure that the additional data requested by SRD can be integrated into client communications as well as introducing the possibility of using related ISO 20022 messages.

Euroclear will also make sure that shareholder disclosure requests and general meetings communicated to clients in a timely manner.