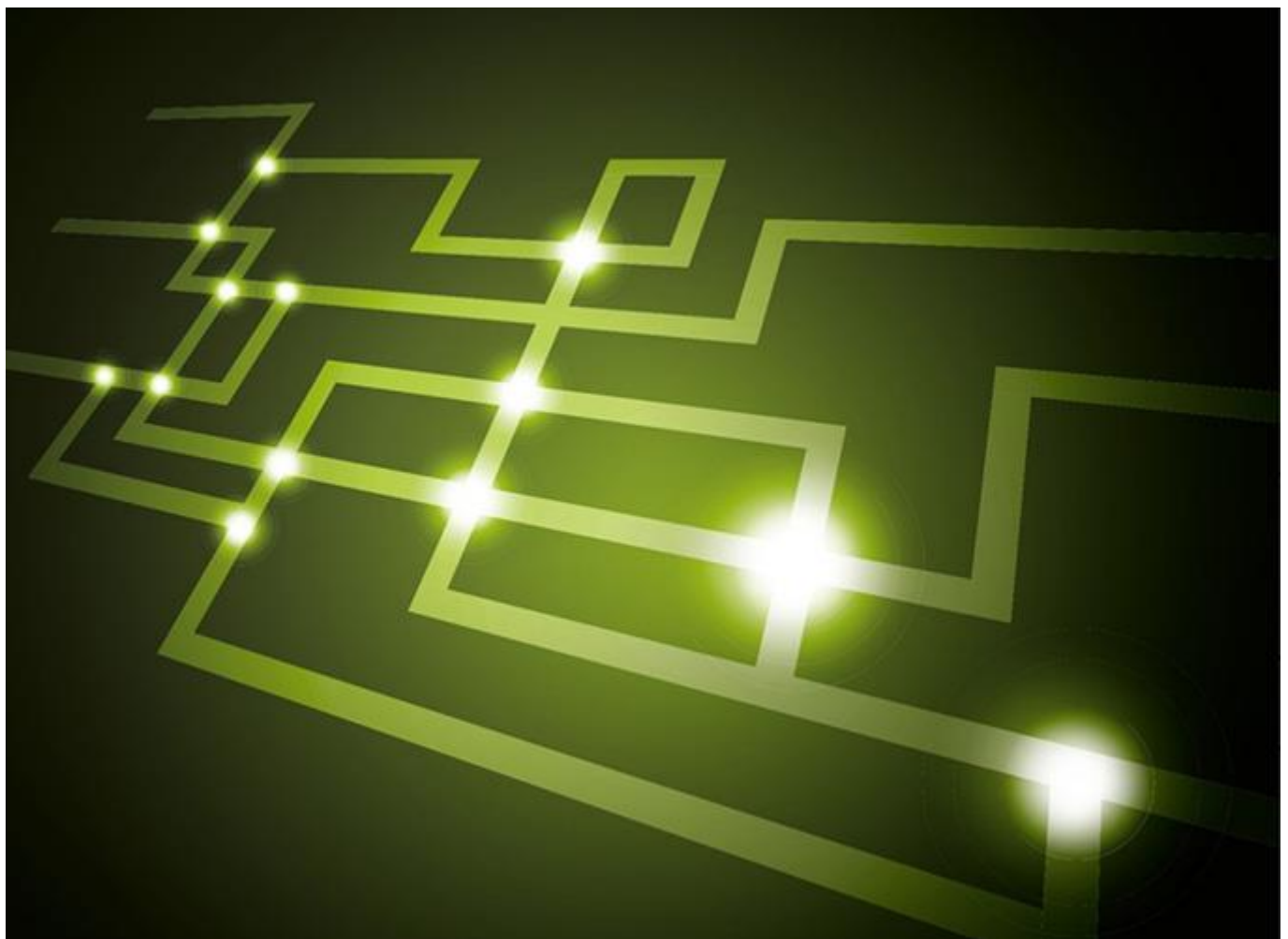


Introduction to Shareholders Rights Directive II

March 2020



What is SRD II?

Shareholders Rights Directive II (or SRD II) aims to improve dialogue and long-term engagement of shareholders with issuers, stimulating good corporate governance and company stewardship.

The Directive represents a significant opportunity to drive process improvement and self-regulation within the industry. AFME and its members are playing a key role in developing new market standards through participation in four industry task forces.

What are the key objectives of SRD II?

- **Efficient transmission of information** through complex chains of intermediaries from issuer to shareholder and back.
- **Facilitate the rights of shareholders:** in particular, cross-border operations; enshrines the right to participate and vote in meetings regardless of geographical location.
- **Remove impediments** and delays in the voting process by introducing strict turnaround times when relaying meeting information and the transmission of votes.
- Connect issuers and shareholders via refined **Shareholder Identity** processes, including the requirement of all intermediaries to assist as required.
- **Good corporate governance** and stewardship through improved engagement of shareholders at General Meetings.

Timeline



What is the scope of SRD II?

PRODUCTS	PARTICIPANTS	ACTIVITIES
Companies with their registered office in a Member State and the shares of which are admitted to trading on a regulated market within a Member State. This includes dual-listed shares of EEA companies.	All participants in the custody chain from Shareholders to Intermediaries (such as issuer agents, CSDs and custodians) to Issuers. The directive applies to any firm holding in-scope shares, including those outside the EEA.	All corporate events: <ul style="list-style-type: none">• Corporate actions; mandatory, voluntary and mandatory with options• General Meetings• Shareholder Disclosure

Corporate Actions

SRD II sets out minimum standards of information regarding corporate actions that must be provided by the issuer to the first intermediary in machine-readable, electronic format to allow straight-through processing.

The issuer is required to simultaneously provide this in both its local language and an English translation, where applicable.

Shareholder Identification

SRD II gives in-scope companies and Member States the right to identify their shareholders above a minimum threshold as determined by Member States or issuers.

The legal definition of 'shareholder' is not addressed by the Directive and is left to each Member State's interpretation under national law. This represents a significant challenge to achieving harmonised market standards.

Intermediaries are required to comply with Shareholder ID requests by sending a response directly to the address indicated by the issuer and forwarding the request to the next intermediary in the chain, no later than during the business day immediately following the record date or the date of receipt of the request by the responding intermediary, whichever occurs later.

General Meetings

When a shareholder uses proxy voting, SRD II introduces new requirements to ensure that the shareholder receives confirmation that their vote has been:

- Received by the intermediary
- Lodged with the issuer
- Received and counted by the issuer

Practically speaking, this means that upon client request post-meeting, each confirmation must be passed back through the chain to the shareholder. It should be noted that identification of the beneficial owner is required for each vote. As such, the aggregation of votes in a single message block is no longer possible.

The same timelines and minimum standards applicable to Corporate Actions (such as translations) also apply to General Meetings.

Frequently Asked Questions

Will existing ISO messaging standards comply with the requirements of the Directive?

Corporate Actions	Existing ISO 15022 messages are compliant
Shareholder Identification	New ISO 20022 messages have been developed and should be used
General Meetings	Existing ISO 20022 messages have been enhanced and should be used

When must an intermediary transmit information to the next party in the chain?

- The same deadlines apply for all types of corporate event.
- For information received before 16:00 local time: On the same business day
- For information received after 16:00 local time: Before 10:00 local time on the next business day

What deadlines are imposed for the transmission of information?

Corporate action elections must be sent to the issuer “without delay” following a process allowing for compliance with the issuer deadline or record date. The industry interpretation is that, as today, elections can be consolidated and those sent before the issuer deadline would not constitute a delay. The last intermediary’s deadline shall be no later than 3 business days prior to the issuer deadline or record date.

For **General Meetings**, to vote without delay it is recommended that for meetings whereby the vote deadline is after record date, votes should be submitted after Record date and upon receipt until deadline date. For those meetings whereby the record date is the same or close to the deadline date, without delay would be a consolidated vote before issuer deadline as close to record date as possible.

Important Links

- SRD II Level 1: bit.ly/afmesrd2
- SRD II Implementing Regulation: bit.ly/afmesrd2ir
- Information on Messaging: smpg.info

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