

SRD II Regulatory Update

February 2020



Shareholder Rights Directive II (SRD II) Regulatory Update

For informational purposes only.

Summary

SRD II (the "Directive") is a revision of the original Shareholder Rights Directive (SRD I), which is an EU Directive that dates back to 2007. SRD II aims to improve long-term engagement between shareholders (asset owners and asset managers) and the companies in which they invest. The Directive's objective is to reduce risks associated with short termism and excessive risk taking by increasing transparency of decision making in companies. A key component in enabling this is the establishment of formal obligations on intermediaries in the custody chain to transmit information between issuing companies and shareholders and to facilitate voting. The Directive is particularly noteworthy as it is part of a broader regulatory agenda to improve transparency and stewardship in capital markets, and is one of the first pieces of legislation that sets out detailed obligations around operational processes in the custody chain.

This document covers how BNY Mellon will comply with the Directive as an Intermediary in the custody chain and how this affects our clients. Since the Directive covers a broader range of activities, we recommend all clients review details of the Directive on our [SRD II Regulation Readiness page](#) for further information. The webpage includes visual details on how SRD II-relevant information is transmitted in the custody chain. There is also a link to the Commission Implementing Regulation (EU) 2018/1212, which outlines the different message requirements and provides brief explanations around the information required for each type of notification and response.

Who is in scope for SRD II?

SRD II applies principally to equity securities with voting rights that are admitted for trading on a regulated market within the European Economic Area (EEA), and whose Issuer has a registered office within the EEA. The Directive applies to:

- Intermediaries used by shareholders. This includes third-country intermediaries (i.e. those who are situated outside EEA markets) when they provide services to in-scope shares
- Institutional investors and asset managers, to the extent that they invest in in-scope shares

Note: The Directive applies to the security, not the shareholder. Therefore, anyone holding in-scope securities, regardless of the holder's location, will be required to comply with SRD II requirements. For example, a US- or APAC-based retail bank holding in-scope securities for an underlying client will be subject to SRD II as much as a European-based retail bank holding the same securities.

Why is this important?

The Directive places obligations on intermediaries with respect to the services they provide to their clients. If you, as a client of BNY Mellon, also act in the capacity of an "intermediary", you will be subject to the obligations set out in the Directive.

Key changes under SRD II:

- Shareholder details must be declared when requested by the Issuer or their third party (for example, full name, address, and unique identifier such as Legal Entity Identifier).
- SWIFT messages for shareholder identification and general meeting notifications will be transmitted using the ISO 20022 standard, rather than the current ISO 15022 standard.
- Intermediaries are obliged to provide shareholders with general meeting notifications and to facilitate voting.

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- Intermediaries will be obliged to transmit specific information from the company to the shareholder (or third party nominated by the shareholder) immediately. This applies to general meetings and corporate action notifications. Shareholder identification requests must be transmitted to any intermediaries downstream in the custody chain.
- End-to-end transparency of shareholder voting, including requirements for the Issuer to confirm that an individual vote was received, and subsequently counted and cast in the meeting. Intermediaries are required to pass on that confirmation, once received.

BNY Mellon's Service Enhancements under SRD II

Regarding shareholder identification requests, BNY Mellon will develop ISO 20022 messaging and portal reporting to notify impacted clients about the Issuer's request for information. The required information will be sourced from internal applications, and BNY Mellon is currently validating information on file as well as categorising impacted accounts as either "Intermediary" or "End Shareholder".

Where the account is classified as Intermediary, the shareholder identification request will be forwarded for further client processing. The intermediary will be required to respond to a shareholder identification request directly to the issuer or their appointed third party. End shareholder clients are not required to respond to these requests; as such, notifications will not be generated for end shareholder accounts. It should be noted that local transpositions (some of which have yet to be finalized) may impose additional or different requirements, and BNY Mellon will comply with relevant Member States' legislation¹.

As an intermediary, BNY Mellon will respond to shareholder identification requests via ISO 20022 with the relevant information and within applicable deadlines.

With regard to general meeting notifications, BNY Mellon already provides a global proxy voting service via our appointed provider, Broadridge. The service covers handling and processing requirements associated with meeting notifications, vote execution and status reporting. Broadridge delivers this service electronically, on our behalf, through secure file transmission via their online ProxyEdge portal and SWIFT (ISO 15022 and 20022).

BNY Mellon is actively working with Broadridge to transform the current service to ensure compliance with SRD II requirements. For example, intra-day notifications, new vote statuses and how beneficial owner information (which will be required as part of the vote) will be embedded into the voting process for Intermediary clients. This will not impact end shareholder clients as BNY Mellon will provide the required data to Broadridge.

As an Intermediary, BNY Mellon is obliged to notify our clients of general meetings taking place and facilitate the exercise of the rights associated with the meeting. As such, BNY Mellon will be setting clients up to our global proxy voting service for all EEA markets only (i.e., no changes for markets outside of EEA). For clients with markets already opted in for proxy services, the current arrangements will be extended to include all EEA markets (this applies to both set-up information and the applicable rate card charges).

[Current Markets standards](#) for general meetings currently allow an opt-out for end shareholders and industry working groups tasked with updating the standards, and are expected to retain this clause. Therefore, clients identified as an end shareholder are expected to have the ability to opt out of receiving general meeting notifications, if that is their preference. It should be noted that local transpositions (some of which have yet to be finalized) may impose additional or different requirements, and BNY Mellon will comply with relevant Member States' legislation¹.

Corporate Actions, also impacted by SRD II, will continue to use existing ISO 15022 formats.

All notifications received electronically and machine-readable will be reported to impacted accounts same day (if received before 16:00), and response deadlines are being reviewed to align with SRD II requirements.

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BNY Mellon Actions:

- BNY Mellon must identify the status of in-scope securities accounts within the intermediary chain, and classify client accounts as either an “Intermediary” or an “End Shareholder”. Where necessary, we will reach out to clients to confirm the classification for all account(s) with BNY Mellon.
- All clients who hold in-scope securities will be automatically set up to the BNY Mellon Global Proxy Voting service in order to receive meeting information for the impacted EEA markets only. Please note this could prompt a change to the service contract. Detailed information on what changes will apply and to whom will be provided as part of our client outreach. Standard processing will continue for clients who wish to sign up to proxy services outside of EEA markets (i.e. only upon request regardless of SRD II account classification).
- BNY Mellon is targeting client outreach to confirm this information in Q2 2020.

What does this mean for clients?

Relating to Shareholder Identification:

- Clients will be contacted by BNY Mellon to validate information required for the shareholder identification process, as necessary.
- Intermediary clients will be required to notify BNY Mellon if they wish to receive SRD II shareholder identification notifications via ISO 20022. Shareholder identification SWIFT notifications can be sent to either the Corporate Action BIC address (if available on file) or to an alternative recipient. All shareholder identification requests will be retrievable via NEXEN.
- End shareholders will not receive shareholder identification requests; therefore, no information is required in relation to notification preferences. Please note that local transpositions (some of which have yet to been finalized) may impose additional or different requirements, and BNY Mellon will comply with relevant Member States’ legislation¹.

Relating to General Meetings and Voting:

- BNY Mellon will set up all clients for proxy services (for EEA markets only) in time for go live in September 2020. Clients identified as End Shareholders who want to “opt out” of our Global Proxy Voting service will need to instruct BNY Mellon accordingly during client outreach in Q2 2020. If no request to opt out is received, the account(s) will be set up to receive meeting information. Please note that end shareholder client accounts will be able to opt out (or opt back in) at any point, as this deadline is simply to allow BNY Mellon to process account set-ups.
- While these requirements are not effective until September 3, 2020, account set-ups, along with any relevant documentation and training via Broadridge, will need to be completed beforehand. Depending on client preferences, the proxy voting services can be activated ahead of SRD II if requested.
- Clients who are set up for the Global Proxy Voting service can elect to receive their meeting notifications in different formats (i.e., Secure File Transmission, ProxyEdge Portal or Swift 20022). If a client has accounts already set up for proxy voting, the same notification preferences can be used for new account(s) that need to be subscribed.
- Please note that Broadridge will reach out to new clients upon sign up to Global Proxy Voting to finalize the account set-up process. BNY Mellon is currently working with Broadridge to finalize the migration period and will communicate relevant training with impacted clients in due course.
 - BNY Mellon accounts classified as “Intermediary” should be prepared to provide the beneficial owner name and unique identifier along with the vote when responding. The manner in which votes can be instructed will be explained by Broadridge as part of their outreach (secure file transfer or ISO 20022).
- Within the EEA, the following markets require additional Power of Attorney documentation to process a vote. Detailed information regarding what documents and how they are to be completed will be provided during client outreach.

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- Clients must ensure they have the correct Power of Attorney (PoA) documentation and/or account structures in place at the time proxy voting service for these markets is requested.
- PoA Documentation must be kept up to date; failure to have the most recent and/or correct documentation or account structures in place may prohibit proxy vote instructions from being executed or accepted by the issuing company.
- Below are the Power of Attorney markets should clients want to vote in the following countries:
 - Belgium
 - Denmark
 - Hungary (requires renewal every year)
 - Latvia
 - Norway
 - Sweden (requires renewal every 5 years)
- General meeting notifications and voting are chargeable services. Regardless of client classification, note that any new proxy arrangement required to meet SRD II obligations may result in additional fees.

Relating to ISO 20022:

- SWIFT have created/updated the following messages as part of the Directive and further information can be found at https://www.iso20022.org/full_catalogue.page (viewable under SEEV dropdown).

MessageDefinition	Abbreviated Name	Message Identifier
ShareholderIdentificationDisclosureRequest	SIDR	seev.045.001.01
ShareholderIdentificationDisclosureRequestCancellationAdvice	SIDC	seev.046.001.01
ShareholderIdentificationDisclosureResponse	SIRE	seev.047.001.01
ShareholderIdentificationDisclosureResponseCancellationAdvice	SIRC	seev.048.001.01
ShareholderIdentificationDisclosureResponseStatusAdvice	SIRS	seev.049.001.01
MeetingNotification	MENO	seev.001.001.06
MeetingCancellation	MECN	seev.002.001.06
MeetingEntitlementNotification	MENT	seev.003.001.06
MeetingInstruction	MEIN	seev.004.001.06
MeetingInstructionCancellationRequest	MEIC	seev.005.001.06
MeetingInstructionStatus	MEIS	seev.006.001.06
MeetingVoteExecutionConfirmation	MECO	seev.007.001.06
MeetingResultDissemination	MERD	seev.008.001.06

For further information on SRD II, please visit BNY Mellon's [SRD II Regulation Readiness page](#), or contact your BNY Mellon Relationship Representative.

¹ Regarding BREXIT, for purposes of this program, BNY Mellon is continuing to treat UK securities as being impacted.

Note: BNY Mellon continues to work through planning requirements for implementation of SRD II. Due to market uncertainty during this process, information detailed in this document may be subject to change.