

EU SRD II - An Overview

What is SRD II?

The revised European Union Shareholder Rights Directive (“SRD II”) is a legally binding regulatory act which amends the existing Shareholder Rights Directive (“SRD”)—originally implemented in 2009—to enhance the rights of shareholders by imposing certain minimum standards on the exercise of shareholder voting rights at EU listed companies. SRD II imposes certain disclosure requirements for EU-based asset managers and asset owners on engagement and investment strategies as investors in European Economic Area (“EEA”) companies. It also imposes shareholder identification and data transmission requirements for intermediaries. Finally, SRD II creates additional requirements for issuers, including improved transparency and approval procedures for related party transactions and executive remuneration.

The overall purpose of SRD II is to enhance the flow of information across the institutional investment community and to promote common stewardship objectives between institutional investors and asset managers, while improving transparency of issuers, investors and intermediaries.

How are SRD II regulations implemented?

SRD II includes two parts: (i) the EU Commission Implementing Regulation 2018/1212 (“EU Regulation”) for technical data transmission standards which takes effect directly in all EU member states in September 2020, and (ii) EU Directive 2017/828 (“EU Directive”), which must be implemented into national law separately by each of the 28 EU member states.

The EU Directive provides guidance on minimum standards on the most substantial issues covered by SRD II for each country, but the final regulations may vary from country to country once implemented. While the deadline for the implementation of the EU Directive was June 2019, most countries missed the implementation deadline and continued to debate the details of proposed legislation through the 2019 autumn legislative cycle (as of 30 October 2019, the following EU member states had not yet finalised implementation of SRD II legislation: Belgium, Cyprus, Estonia, Germany, Ireland, Malta, the Netherlands, Poland, Portugal, Slovenia or Spain).

New Requirement Details		Explanation
<i>Requirement:</i>	Vote Confirmation	Per the EU Directive, member states must define the procedure for shareholders to request electronic confirmation of how their votes were cast. The EU Regulation defines the template for submitting and responding to a request. Per the EU Regulation, confirmation of receipt of votes must be provided immediately. Further, upon request, confirmation of how votes were recorded and counted must be provided within 15 days of the request or the date of the relevant general meeting, whichever is later.
<i>Applies to:</i>	Issuers & intermediaries	
<i>EU Regulation or Directive:</i>	Directive & regulation	
<i>Deadline:</i>	September 2020	
<i>Requirement:</i>	Shareholder Identification	The EU Directive allows member states to determine an ownership threshold (minimum 1 share, maximum 0.5% issued shares) above which issuers may require shareholder identification to be provided upon request. Applies to all shares held in EU markets, regardless of where the intermediary or B.O. is located. Technical standards and templates for requesting and transmitting information are determined by the EU Regulation. Shareholder identity must be provided by the intermediary on the business day following the record date or the receipt of the request, whichever is later.
<i>Applies to:</i>	Issuers & intermediaries	
<i>EU Regulation or Directive:</i>	Directive & regulation	
<i>Deadline:</i>	September 2020	
<i>Requirement:</i>	Transmission of Data Related to Voting	The EU Directive specifies that member states must require intermediaries to provide certain information pertinent to voting directly to shareholders or their nominees and to issuers. The EU Regulation specifies how the electronic transmission of information regarding the notice of meeting, agenda items, deadlines, voting rights, shareholder participation in the general meeting and shareholder voting instructions will be standardised into tabular formats and that it must be transmitted "without delay".
<i>Applies to:</i>	Issuers & intermediaries	
<i>EU Regulation or Directive:</i>	Directive & regulation	
<i>Deadline:</i>	Varies by member state	
<i>Requirement:</i>	Engagement Policy	All institutional investors and asset managers in the EU must disclose an engagement policy, including their approach to voting. For details, refer to the relevant member state implementing regulations.
<i>Applies to:</i>	Institutional investors	
<i>EU Regulation or Directive:</i>	Directive	
<i>Deadline:</i>	Varies by member state	
<i>Requirement:</i>	Engagement & Voting Reporting	All institutional investors and asset managers in the EU must report and disclose annually how they have implemented their engagement policy, including a report on voting activity. For details, refer to the relevant member state implementing regulations.
<i>Applies to:</i>	Institutional investors	
<i>EU Regulation or Directive:</i>	Directive	
<i>Deadline:</i>	Varies by member state	

New Requirement Details		Explanation
<i>Requirement:</i>	Proxy Advisor Code of Conduct	Proxy Advisors are required to apply a code of conduct, such as the Best Practice Principles for Shareholder Voting Research and Analysis , of which Glass Lewis is a founding signatory. For details, refer to relevant member state implementing regulations.
<i>Applies to:</i>	Proxy advisors	
<i>EU Regulation or Directive:</i>	Directive	
<i>Deadline:</i>	Varies by member state	
<i>Requirement:</i>	Remuneration Reporting	Minimum standards have been set for detailed disclosure of each component of remuneration as well as performance criteria. Remuneration policies should include non-financial criteria and describe their application in detail, though specific requirements are left to member states. The European Commission published draft non-binding guidance on standardised remuneration tables in 2019 which are expected to be finalised in early 2020.
<i>Applies to:</i>	Issuers	
<i>EU Regulation or Directive:</i>	Directive	
<i>Deadline:</i>	Varies by member state	
<i>Requirement:</i>	Shareholder Vote on Remuneration	Shareholders must have the right to vote on executive remuneration policies at least every four years. They will also have a vote on the remuneration report on implementation of the policy annually, unless a member state makes this a non-voting discussion item for smaller companies. For details, refer to the relevant member state implementing regulations.
<i>Applies to:</i>	Issuers	
<i>EU Regulation or Directive:</i>	Directive	
<i>Deadline:</i>	Varies by member state	
<i>Requirement:</i>	Related Party Transaction (“RPT”) Reporting & Approval	Member states must set materiality thresholds for evaluating RPTs. Material RPTs must be publicly disclosed and either approved by the board or shareholders, without the participation of interested parties. Member states may also require the publication of a fairness opinion. For details, refer to the relevant member state implementing regulations.
<i>Applies to:</i>	Issuers	
<i>EU Regulation or Directive:</i>	Directive	
<i>Deadline:</i>	Varies by member state	