



IHS Markit®

SRD II and the new meaning of
Shareholder Identification:

Going beyond disclosure





Are IR teams ready for the new disclosure which will be made available under SRD II? Do they have systems in place to digest, analyse and act on the enhanced visibility?

- SRD II will create additional transparency in most markets depending on thresholds
- Investor Relations Teams will need to put solutions in place to collate, ingest and action this data
- Disclosed information will include beneficial owner details which will often differ from the investment manager
- Investors below the threshold or without voting rights may not be captured
- As an issuer agent, IHS Markit leverages this additional disclosure to provide a complete and comprehensive view of the shareholder structure, providing IR departments with actionable intelligence and insights

The Shareholder Rights Directive II (SRD II) is the amendment to the first Shareholder Rights Directive, which was implemented in 2007, with the goal to harmonise and streamline shareholder identification across the EU. SRD II will be enacted by all EU member states by 3 September 2020. Its broad aim is to improve transparency with the purpose of helping companies better communicate and engage with their investors.

SRD II explicitly pursues 5 main objectives:

- 1 Ensure that all investors are incentivised to participate in the long run to the life of companies
- 2 Improve involvement of shareholders in corporate governance
- 3 Encourage transparency in the investment strategy
- 4 Influence directors' remuneration
- 5 Ease the identification of shareholders with the aim of facilitating the exercise of shareholder rights

Disclosure requirements

Under SRD II, companies have the right to request that shareholders identify themselves. To allow this, the term “shareholder” was clarified and unified across the markets, and companies, or their agents, are now enabled to request identification of beneficial owners.

Shareholder Identification requests apply for a range between one share and up to 0.5% of the equity or voting rights in EU listed companies. The 0.5% threshold is the maximum default threshold and several EU member states have announced that they intend to go lower, some fully disclosing, i.e. no threshold.

Requests for shareholder identifying information and responses must be in a standardised format, which is machine readable, with a preference for the ISO 20022 standard. EU member states are in the process of interpreting the directive and transposing it into local law which could result in a varied set of laws across the European Union. The issuer can trigger the disclosure request themselves, or via a qualified third-party agent, who can facilitate the request for them.

The common interpretation of the directive is that disclosure requirements will be based on the jurisdiction of the issuer and not that of the investor, but not all market participants across the EU have the same view. The differing interpretations of market participants will create a challenge in enforcing the directive.

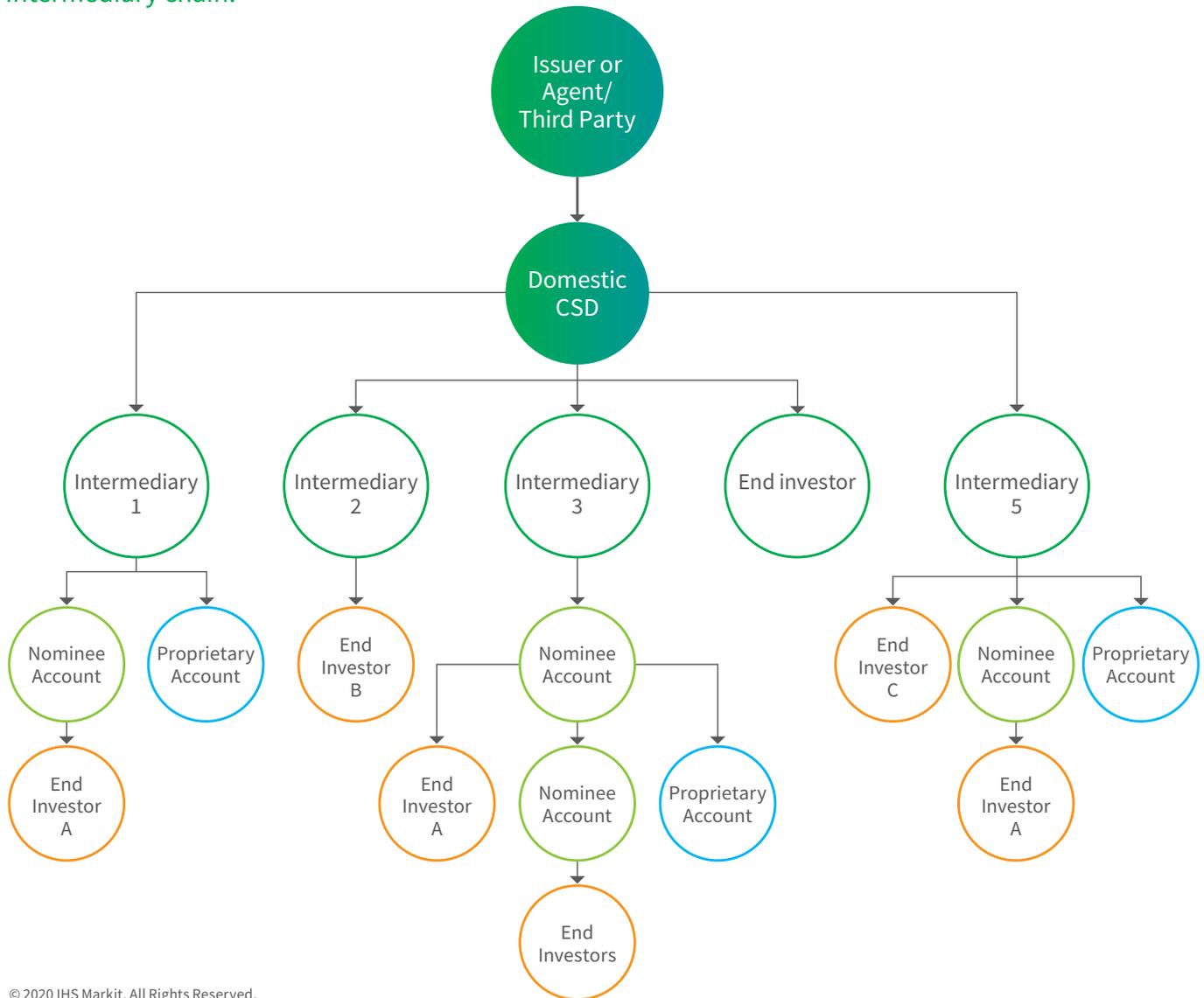


How should issuers request this information?

Requests will go down the intermediary chain, starting with the first intermediary for full requests, but could selectively be directed at specific nominees in the intermediary chain. Companies and/or their agents will have the right to use third party agents which could include (but is not limited to):

- Custodians
- Registrars
- Clearing Dealers/Brokers
- Depositories
- Advisors
- Third Party Agents (including IHS Markit)

Intermediary chain:



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IR teams will need to understand who to request disclosure from and have a greater understanding of which custodians are used by their shareholders. The information will be returned in a standardised format. The directive does not envisage any collation of the information before transmission to the issuer. The party which triggers the disclosure request is also the party which will receive the information.

What information should issuers expect to receive?

The directive states that “companies have the right to identify their shareholders”. The definition of “shareholder” will depend on the transposition of the law in the EU member state.

Some states will interpret ‘shareholder’ as the investor who retains the voting rights to the shares, others the investment manager with investment discretion over the stock. This is often not the same entity. It is important that companies understand the nature of the information they will receive when making shareholding disclosure requests under SRD II. Intermediaries will not be responsible for the collation or reconciliation of shareholding data, issuers will either have to process the information in-house or rely on trusted specialists in order to decipher the data and make it actionable.



How should IR departments use the information?

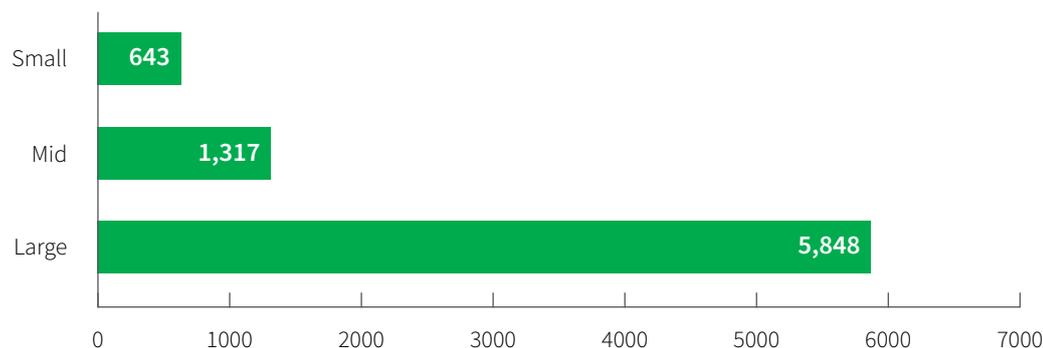
As anticipated by the directive, SRD II will help issuers understand who their shareholders are and therefore who to reach out to in preparation for any event where they require shareholder support, AGMs, EGMs, special situations etc.

When it comes to IR calendar planning, IR departments will need to ensure that they fully understand what information is being disclosed under SRD II in order to reach out to the right entity. They will require additional guidance to identify the correct individual to contact.

In some countries, SRD II will allow issuers to go behind nominee holdings, increasing the amount of disclosed positions substantially. At the current time, in some European markets beneficial owners can directly enter the share register around the AGM. IHS Markit found that across its clients the number of positions directly entered in the AGM register rose by an average of 40%. A full register for a large cap European company can reach the 100,000s of entries, all of which will need to be analysed and collated in order to provide actionable intelligence on the shareholder base.

IHS Markit analysed the existing disclosure across its large, medium and small cap companies. For a large cap company, the average number of identified funds is nearly 6,000 where there are potentially 100s of beneficial owners behind each of these funds. The amount of information made available through SRD II will present a significant challenge for IR departments to process and analyse.

Total Average # of Identified Funds across IHS Markit European Clients



What should IR departments do to prepare for SRD II?

Proactively monitor your shareholder base

Conducting shareholder analyses on a regular basis will allow for early identification of important investors before they meet the threshold for disclosure. Having a clear understanding of the composition of the entire shareholder base is essential to a successful IR programme including roadshow planning, assessing shareholder risk, governance sensitivity analysis before AGMs and to track shareholder activist positions as they build up.

The directive empowers companies to proactively reach out to the investment community and ask for holdings disclosure where they meet the required threshold. The directive does not impose on investors to disclose holdings directly to the issuer and/or the regulator unless requested to do so. In fact, investors will likely not even be aware of a disclosure request being triggered, as only the respective nominee is required to disclose the requested information (based on thresholds) and return the information directly to the entity which triggered the disclosure request.

Understand the nature of the information disclosed

SRD II will provide more timely and consistent level of shareholder disclosure that is welcomed by the capital markets and the IR community. It is worth noting that most large asset management houses invest their own funds as well as external mandates, typically for pension, retirement or insurance. Within the European Union, most threshold disclosures published by asset managers only relate to the portion of the shares they retain the voting rights on, not their entire managed position, where exposure can be split between an investor's investment discretion and voting discretion. With SRD II, disclosure will be made based on beneficial ownership, irrespective of investment manager link, or proxy voting authority.

IHS Markit compared disclosures of a large U.K. fund manager in its clients with the threshold notifications published to the regulator. It found that the managed position was 20% to 40% higher than the regulatory disclosure and, in some instances, the asset manager had investment discretion over more than double the number of shares they retained voting rights on. From an investment discretion point of view, solely looking at beneficial ownership here would severely understate the influence of this investor on the shareholder base.

Put systems in place to ingest the data

As the directive is implemented, IR departments need to not only understand the nature of the information that will be provided under SRD II, but also the volume. Having trusted shareholder intelligence providers in place to help sift and analyse the data will be essential to benefitting from the increased disclosure and faster turnaround times. Shareholding data disclosed under SRD II will only be valuable once overlaid with additional context such as ownership trends and underlying investor strategies which will not be apparent through the disclosure alone.

Does this mean the EU will be moving to a share register system with full visibility?

SRD II will only provide holdings above the threshold (where this applies) and the information provided may not necessarily be either the beneficial owner or the investment manager in the shares. Disclosures received from intermediaries though provided in a standardised format, will come from multiple sources and will need to be collated and analysed to be actionable by IR departments.

As an issuer agent, IHS Markit has systems in place designed to ingest, analyse and help IR departments fully leverage the enhanced disclosure provided by SRD II.



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About IHS Markit

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