



# IMPLEMENTING SRD II

## COUNTRY BRIEF: THE UNITED KINGDOM

### KEY TAKEAWAYS

- The United Kingdom left the European Union on Jan. 31, 2020. Some of the SRD II requirements had been transposed into the UK legislation on June 10, 2019.
- Many issues addressed in the Shareholder Rights Directive II (SRD II) were already covered by UK law. The additional requirements of SRD II were transposed into UK legislation on June 10, 2019.
- Say-on-pay votes are already in place regarding approval of the directors' remuneration report and the remuneration policy. The former is advisory, and the latter is binding.
- The Companies Act 2006 already includes provisions to allow a public company to investigate who has an interest in its issued share capital.
- The additional requirements of SRD II regarding transparency of institutional investors, asset managers and proxy advisors were introduced through relevant legislation and amendments to the FCA Handbook. These regulatory obligations sit alongside the voluntary provisions of the Stewardship Code, which encourages responsibility and accountability of investors.

### EU DIRECTIVE 2007/828/EC REGARDING THE ENCOURAGEMENT OF LONG-TERM SHAREHOLDER ENGAGEMENT (SRD II)

In response to the global financial crisis, the European Commission proposed a revision of the original 2007 Shareholder Rights Directive.

The [revised Shareholder Rights Directive II \("SRD II"\)](#), which took effect in June 2017, seeks to reinforce effective and long-term shareholder engagement and monitoring of company performance.

### KEY NEW REQUIREMENTS OF SRD II

The Directive is subdivided into three main chapters



#### VOTING CHAIN

- Companies should have access to the identity of shareholders without delay.
- Transmission of information that enable the exercise of shareholder rights should be made in electronic and machine-readable formats.
- Intermediaries are required to facilitate the exercise of shareholder rights, including confirmation that shareholder votes were recorded and counted accurately.



#### TRANSPARENCY

- Engagement policies of institutional investors and asset managers
- How shareholder engagement is integrated into investment strategy, including how voting rights were exercised
- Institutional investors' investment strategies and arrangements with asset managers
- Proxy advisors shall disclose a reference to the code of conduct they apply and report on the application of that code.



#### REMUNERATION & RPTs

- Shareholders will have the right to express their views on executive pay.
- Separate votes on the remuneration report and remuneration policy.
- The European Commission will provide non-binding guidance about the presentation of the remuneration report.
- Rules on transparency and approval process of related-party transactions.

## SHAREHOLDER RIGHTS DIRECTIVE II

In response to the 2008 global financial crisis, the European Commission proposed in April 2014 a revision of the original 2007 Shareholder Rights Directive in 2014. The revised Shareholder Rights Directive ("SRD II"), which took effect in June 2017, seeks to reinforce effective and long-term shareholder engagement and monitoring of company performance. Both elements were lacking during the crisis when many companies took on excessive risks in the pursuit of short-term returns. EU member states were called upon to amend their laws to comply with SRD II by June 10, 2019. As of Feb. 26, 2020, 20 EU member states had implemented SRD II into their local legislations.

## IMPLEMENTING SRD II INTO BRITISH LEGISLATION

Many of the requirements of SRD II are already well-established in the UK framework for the reporting of directors' remuneration under the Companies Act 2006. The UK Government transposed the remaining provisions of SRD II into UK legislation on June 10, 2019.

The following outlines the current application in the UK of key aspects of SRD II.

**Identification of Shareholders**

In line with the SRD II, issuers will be allowed to request the identification of shareholders holding more than a certain percentage of shares or voting rights. Such a percentage shall not exceed 0.5 percent. Part 22 of the Companies Act 2006 already includes provisions that allow a public company to investigate who has an interest in its issued share capital.

**Transmission of Information**

In order to enable shareholders to exercise rights deriving from their shares, intermediaries are required to transmit information without delay in compliance with issuer deadlines and record dates and in electronic and machine-readable formats which allow for interoperability and straight-through processing (STP). This amendment will take effect on Sept. 10, 2020.

**Facilitation of Shareholder Rights**

Intermediaries are required to facilitate the exercise of shareholder rights. Voting instructions should be transmitted without delay in accordance with record dates and issuer deadlines. Vote confirmations and how shareholder votes were counted at the general meeting must be provided to shareholders. This amendment will take effect on Sept. 10, 2020.

**Transparency of Institutional Investors**

Institutional investors and assets managers are required to disclose their engagement policies annually.

**Transparency of Proxy Advisors**

Proxy advisors are required to annually publish on their websites a reference to a code of conduct which they apply and reports on the application of that code.

**Right to Vote on the Remuneration Policy and Report**

The UK framework already meets the core requirements outlined in SRD II for public companies to produce remuneration policies and remuneration reports, each being subject to a shareholder vote.

The remuneration policy should be submitted at the general meeting for shareholder approval in the form of an ordinary resolution upon each substantial change thereof or at least every three years. The vote is binding and requires a simple majority to pass at the shareholders meeting. Abstentions/votes withheld will not count towards the outcome.

The annual remuneration report should be submitted for shareholder approval at the general meeting which approves the financial statements for the accounting period for which the remuneration report is prepared. The vote is advisory and requires a simple majority to pass at the shareholders' meeting. Abstentions/votes withheld will not count towards the outcome.

**Transparency on Related-Party Transactions**

Related-party transactions are subject to board approval and in the absence thereof at the general meeting. This requirement does not apply to related-party transactions concluded in the ordinary course of business and under normal market conditions.

**Effective Date**

June 10, 2019

**GM Notice Period**

14 days

**Availability  
Remuneration Report**

With annual report

**Policy Vote**

Binding

**Report Vote**

Advisory

**RPT Vote**

No



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