

# Shareholder Rights Directive II

FAQs for UK & Ireland Sub-Custody



Together we thrive

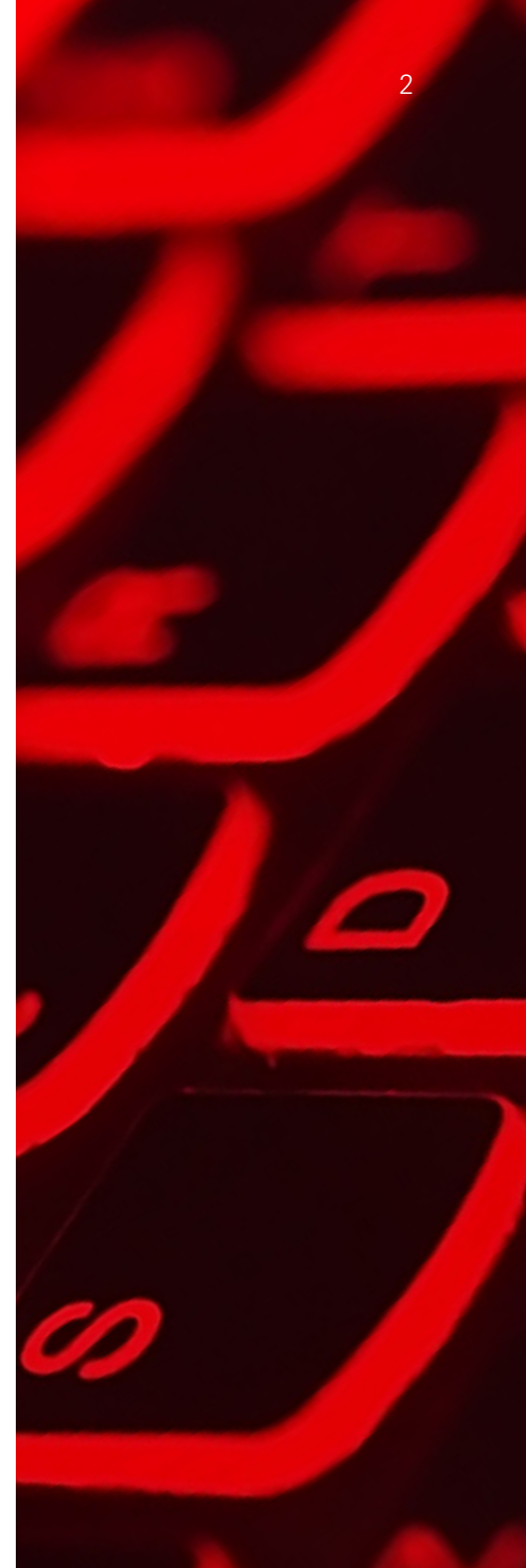


SRD – Known as the Shareholder Rights Directive – was implemented by the EU in 2009. It has since undergone a revision to further improve the standards of transparency and voting rights expected among shareholders. SRD II updates the original Shareholder Rights Directive and has two phases of implementation; the first was adopted into law in the EU in June 2019, and the second is due in September this year.

For our UK & Ireland customers, the current Brexit transition period raises a number of questions about the extent to which this country will ultimately retain the requirements of the Directive in the long term.

We're pleased to answer below some of the vital questions you may have about how HSBC will implement SRD II, and its regulatory impact on our corporate operations, proxy services and disclosure processing.

|                           |    |
|---------------------------|----|
| 1 > General Questions     | 3  |
| 2 > Corporate Actions     | 5  |
| 3 > Proxy Services        | 8  |
| 4 > Disclosure Processing | 10 |



# 1 > General Questions

## What is the status of the transposition?

SRD II has been transposed into the majority of EU member states at this point.

The parts of SRD II dealing with the duties of intermediaries has not been transposed into national law in the UK. Requirements for Intermediaries apply from September 2020.

Ireland has transposed SRD II into national law and provisions apply from 30 March 2020.

## Will there be any impacts as a result of Brexit?

HSBC is closely monitoring the status of Brexit and its impact on the regulatory framework. For our UK customers, the current Brexit transition period raises a number of questions about the extent to which this country will ultimately retain the requirements of the Directive in the long term. HSBC is including the UK in its preparations and program planning. Any relevant client impacts will be advised in due course.

As of March 2021, Euroclear Bank will be the new Issuer CSD for Irish securities, taking over the role from CREST, we are monitoring this transition and will advise you of any impact in due course.

## Are there any local interpretations being applied that differ from the original Directive/ implementing regulation?

As a Directive, each jurisdiction has transposed SRD II individually and that has created some different local interpretations when compared to other jurisdictions and their respective transpositions. We are assessing in line with the Industry how this will impact and need to be catered for within our operating models.

We expect the UK to implement the parts of SRD II which relate to intermediaries in accordance with the EU timetable under SRD II Levels 1 and 2 i.e. SRD II entered into force in the EU on 10 June 2019 with Articles 3a (identification of shareholders), 3b (transmission of information) and 3c (facilitation of the exercise of shareholder rights) to apply from 3 September 2020. The law will likely come into force in September 2020 if the UK remains in the EU at that date, which is anticipated under the transition period. If the UK is no longer in the EU then we must await steps from FCA which will inform us how and if they intend to apply SRD II.

# 1 > General Questions

Are any new fees expected to be introduced as a result of the implementation of the regulation? If so, please explain in detail.

We cannot confirm at this point if fees will change because of SRD II; we will advise in due course. As part of our Intermediary obligations under article 3d, HSBC will publish costs related to SRD II services.

What is the definition of “shareholder” in your market and what level of shareholder will be required to meet disclosure requirements?

We await legal and industry guidance and clarity as to how the definition of “shareholder” should apply in the UK & Ireland with respect to the application and interpretation of SRD II.

Ireland has not included the de minimis threshold in its regulation.

Please provide an update on your SRD II project activities?

HSBC has a fully mobilised programme in place to deliver and implement solutions to meet SRD II. Details of any changes that impact our clients will be notified prior to the September 2020 compliance date.

Please describe any high level expected impacts (if any) to current legal and/or service agreements as a result of SRD II.

HSBC has a fully mobilised programme in place to deliver and implement solutions to meet SRD II. While HSBC is the process of confirming all requirements we don't currently see any requirement for updates to our client agreements. There may be improvements and changes to service levels and these will be documented in due course.



## 2 > Corporate Actions

How is HSBC going to ensure you are meeting the timeliness requirements for the delivery of Corporate Action details? Will there be any changes to infrastructure or to the time frame in which notifications will be delivered to me?

Part of our SRD II programme delivery includes assessing changes required to our operating model to meet SRD II compliance. We're undertaking impact analysis to establish if any changes are required to our operating model to support SRD II Compliance. Details of any changes that impact our clients will be notified prior to September 2020 implementation date. We are aiming to adhere to the specific SRD II deadlines, for in-scope securities e.g. announcements received by 4:00 pm will be released by our close of business, and those received after 4:00 pm will be released by 10:00 am the next working day.

Can we expect an increase in the volume of notifications?

We are not aware of any potential increase in volumes.

Will there be any change to the HSBC deadline for electable events compared to the expiration date of the offer to ensure the three day minimum window (from receipt of announcement to deadline to instruct) is met for the underlying shareholder?

We're undertaking a review of our deadlines in line with SRD II regulations and will communicate details of any changes prior to the September 2020 implementation date.



## 2 > Corporate Actions

Will HSBC hold back announcement of an event if the SRD II required details are not complete or are unconfirmed?

No.

---

Do you intend to use additional indicators?

Swift intend to implement a new optional SRD II identification flag in the 2020 November release. When this is available we intend to align our process accordingly.

What are the sources HSBC rely on to distribute announcements (CSD, data provider, issuer agent etc...)?

Are all event types announced by CSD (i.e. including tender)?

HSBC will notify clients of all corporate action types, upon receipt of verified information from our primary sources which are as follows:

- ◆ CREST (primary source)
- ◆ London Stock Exchange via SWIFT (primary);
- ◆ Regulatory News Service (secondary);
- ◆ ICE Data Services (secondary, and primary for some UK income events);
- ◆ SIX Financial Information (secondary);
- ◆ Company documentation (secondary);
- ◆ Company websites (secondary).

## 2 > Corporate Actions

Which languages will you provide the announcement of corporate events (corporate actions, general meetings, disclosure requests)?

Our understanding is that the "international language of business" will be used which we take to mean English.

---

Do you plan to send confirmation of entitlement messages ?

Yes, we will send you an MT564 message.



## 3 > Proxy Services

Please confirm HSBC will be developing/using the updated ISO 20022 messages for proxy messages?

Yes. HSBC outsource Proxy Voting to ISS. ISS are developing ISO 20022 messages both receipt and deliver in line with SRD II timelines.

Will you be accepting voting instructions prior to the record date? If so, how will reconciliation of positions be performed?

Yes. For meetings where the record date is after the deadline date, if an ISS user votes on their total holding in ProxyExchange, ISS will apply the voting instruction to the total holding, whatever that is on the record date, regardless of any increase or decrease that has been notified to ISS via the holdings feed. If a client instructs on a portion of their holding, ISS will limit the instruction to the instructed quantity, and if this results in a overvote come record date, it will cause an exception.

What changes, if any, are you anticipating to your current proxy offering as a result of SRD II?

We are analysing the scope of change required for our proxy voting service and we will communicate those changes to you as they develop.

Are there any changes to how beneficial owner information will be communicated for proxy voting? If so, please describe the changes?

Beneficial owner information will be provided to ISS for processing purposes in line with SRD II requirements.



## 3 > Proxy Services

Will the name and unique identifier of the shareholder become mandatory information when casting a vote in your market?

We anticipate the unique ID will need to be provided with the voting instruction. LEI code would be preferred.

What BIC will proxy voting related SWIFT messages come from?

The ISS BIC which is PMONUS33.

Will you be providing vote acceptance/rejection statuses for each vote instruction received?

Where received, ISS will transmit post meeting confirmation, without delay into ProxyExchange.

What deadline will you offer with respect to the local market deadline (number of days)?

1 day prior to market deadline in the UK.

How do you plan to notify meeting announcements?

SWIFT ISO 15022 (Existing template)? MX ISO 20022?

HSBC Securities Services (HSS) use ISS for Proxy Voting. ISS can provide announcements via their ProxyExchange online portal and they are building out the new ISO 20022 proxy message formats in line with SRD II compliance.

Will you be providing issuers confirmation that votes have been recorded and counted? If so, how?

Yes, via ProxyExchange and ISO20022 SWIFT Messaging.

## 4 > Disclosure Processing

Please confirm whether HSBC is planning on using the new SWIFT 20022 messages being created for shareholder disclosure?

Yes. HSBC will be using the new ISO 20022 formats for disclosure requests.

What are HSBC's expectations regarding turn around times for processing? How do they change when it comes to time zones, contracting entities, and cut off times?

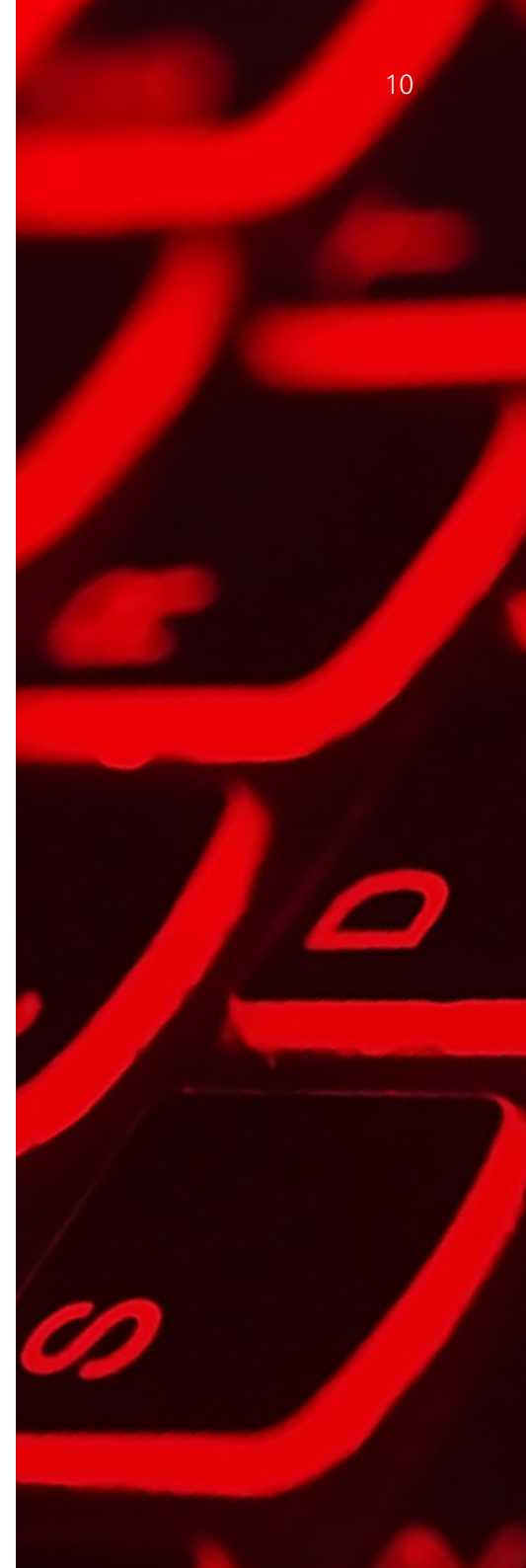
We will be aligning to the SRD II standards and following the processing timelines as stipulated.

At what level do you define the shareholder in the framework of the Directive? As an intermediary or as the final beneficiary?

Likely both (but subject to local transpositions legal interpretation) - intermediaries will be reported in line with SRD II to the issuer clearly identifying their status as next intermediary, holding securities on behalf of their underlying clients. Final beneficiaries will be reported to the issuer as holding the securities on their own behalf.

What security protocols are in place at HSBC for the protection and distribution of shareholder data when it comes to disclosure requests?

HSBC has the necessary policies and procedures in place for data protection in line with regulatory obligations.



## 4 > Disclosure Processing

What is the threshold limit for disclosure stated in the UK & Irish market?

This has yet to be defined for the UK as this element of SRD II has not been transposed, we are monitoring. Ireland has not included the de minimis threshold in its regulation.

How do you plan to route shareholder identification requests through the chain of intermediaries?

For Intermediary clients, the current ISO 15022 corporate action messages cannot be used for the new disclosure request message flows. New messages are being created in ISO 20022 format only; as such, they are the only SWIFT messages that will support the disclosure process (notification and response).

What shareholder data do you expect to receive (i.e. name, LEI, address, etc)?

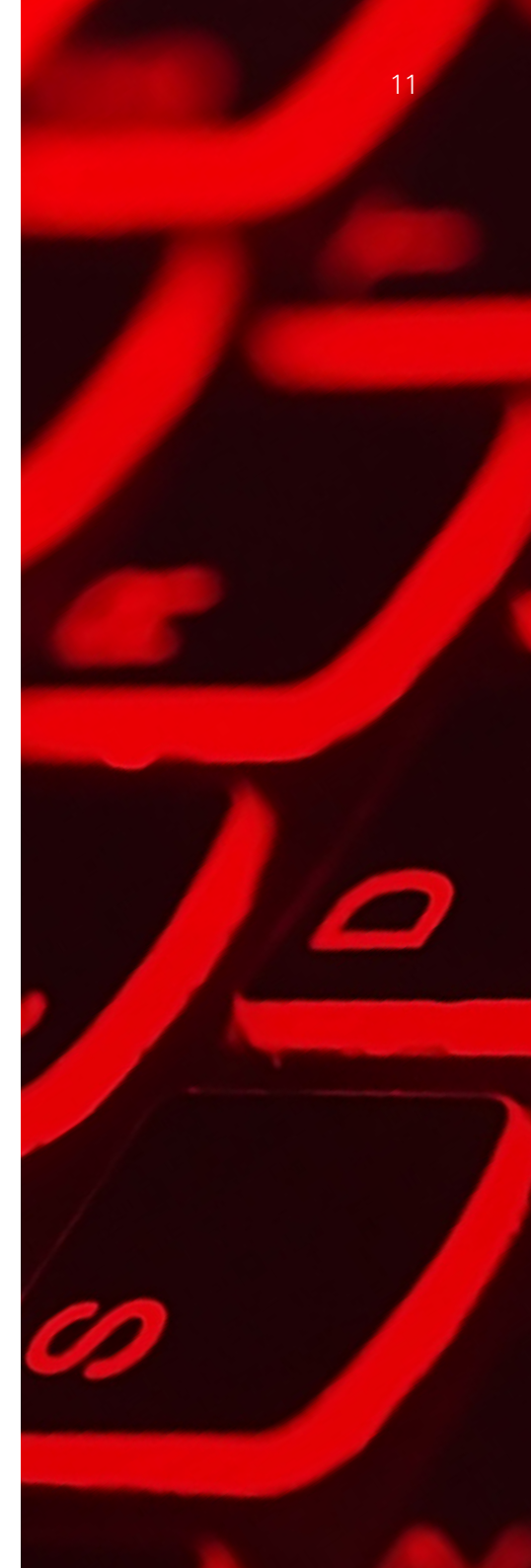
All mandatory data to comply with SRD II.

What format or mechanism is expected to be used for providing the response?

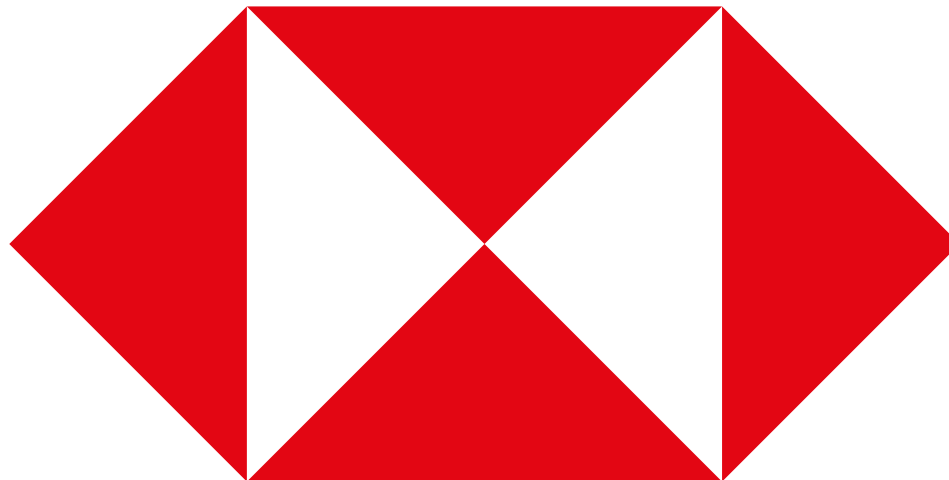
For intermediaries, you will communicate directly to the issuer or issuer's selected agent requesting shareholder identification. As issuers are responsible for determining and communicating the manner in which they will accept responses (for example, and as per the regulatory text, sent by a BIC address, secured or certified e-mail address, or URL for a secure web portal), HSBC cannot comment on what formats will be available and it will likely change on a case-by-case basis.

To whom (you, directly to the issuer or its agent) will we have to send back the response with the shareholder identification?

Directly to the issuer or the issuer's agent as directed on the request.







#### Disclaimer

This document is issued by HSBC Bank plc ("HSBC"). HSBC is authorised by Prudential Regulation Authority and regulated by the Prudential Regulation Authority and Financial Conduct Authority ("FCA") and is a member of the HSBC Group of companies ("HSBC Group").

HSBC has based this document on information obtained from sources it believes to be reliable but which have not been independently verified. However, some of the information in this document relates to draft rules and legislation which are not currently in force and are subject to change. Except in the case of fraudulent misrepresentation, no liability is accepted whatsoever for any direct, indirect or consequential loss arising from the use of this document. HSBC is under no obligation to keep current the information in this document. You are solely responsible for making your own independent appraisal of and investigations into the products, investments and transactions referred to in this document and you should not rely on any information in this document as constituting investment or other advice. Neither HSBC nor any of its affiliates are responsible for providing you with legal, tax or other specialist advice and you should make your own arrangements in respect of this accordingly. The issuance of and details contained in this document, which is not for public circulation, does not constitute an offer or solicitation for, or advice that you should enter into, the purchase or sale of any security, commodity or other investment product or investment agreement, or any other contract, agreement or structure whatsoever. This document is intended for the use of clients who are professional clients or eligible counterparties under the rules of the FCA only and is not intended for retail clients. This document is intended to be distributed in its entirety. Reproduction of this document, in whole or in part, or disclosure of any of its contents, without prior consent of HSBC or any associate, is prohibited. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document. Nothing herein excludes or restricts any duty or liability of HSBC to a customer under the Financial Services and Markets Act 2000 or the rules of the FCA.

HSBC Bank plc. Authorised by Prudential Regulation Authority and regulated by the Prudential Regulation Authority and Financial Conduct Authority. Registered in England No. 14259 Registered Office: 8 Canada Square, London, E14 5HQ, United Kingdom. Member HSBC Group