

The rise of the digital shareholder

Why Swiss/EU banks need to act in 2020 to be compliant with the Shareholder Rights Directive II (SRD II) and how PwC can support you to capitalize on the opportunity at hand



```
mirror_mod.use_x = False
mirror_mod.use_y = True
mirror_mod.use_z = False
elif _operation == "MIRROR_Z":
    mirror_mod.use_x = False
    mirror_mod.use_y = False
    mirror_mod.use_z = True

#selection at the end -add back the deselected mirror
mirror_ob.select= 1
modifier_ob.select=1
bpy.context.scene.objects.active = modifier_ob
print("Selected" + str(modifier_ob)) # modifier ob is the
#mirror_ob.select = 0
#one = bpy.context.selected_objects[0]
#two = bpy.context.objects[one.name].select = 1
```

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Shareholder disclosure within 24 hours? Facilitating the exercise of shareholder rights? ISO20022 messaging? Are you on track to meet the fast-approaching deadline for implementation of the operational requirements of the Shareholder Rights Directive II?

The EU Shareholder Rights Directive II (SRD II) aims to strengthen shareholder rights and the long-term engagement of shareholders. The goal is to improve corporate governance of listed companies and thereby preventing excessive short-term risk-taking by managers. With SRD II, the European Union increases transparency and establishes the necessary (electronic) means to simplify and standardise the dialogue between issuers and shareholders via the often complex chain of intermediaries and across borders.

By September 2020, financial intermediaries such as banks or custodians have to meet the minimum requirements for Articles 3a, 3b and 3c as set out in the EU implementing act. The scope of these articles includes the obligation of banks to disclose the identity of shareholders to the issuer, the timely transmission of information and the execution of shareholder rights.

SRD II can be an additional strain for a bank's change and IT functions due to 1) the introduction of a new message standard (ISO20022), 2) additional reporting capabilities and 3) potential changes in the e-banking environment to facilitate the execution of shareholder rights.

Who is impacted by SRD II?



Shareholder

Shareholder rights will be strengthened. Shareholders will have better access to the latest information about upcoming general meetings and better means to participate in shareholder voting.



Intermediary

If requested, intermediaries must provide issuers with information to identify shareholders and transmit such information without delay. In addition, the Intermediary must facilitate the exercise of shareholder rights.



Why are Swiss banks in the scope of SRD II?

Swiss banks and financial services providers are in the scope of SRD II if they:

- are classified as intermediaries and provide services for the safekeeping of shares, administration of shares or maintenance of custody services on behalf of shareholders or other persons;
- and these services are provided for EU shareholders or for companies, which have their registered office in an EU Member State;
- and whose shares are admitted to trading on a regulated market situated or operating within an EU Member State.



Entities (Issuer)

To allow issuers to engage directly on a personal level with their shareholders, they are granted permission to receive information to identify them.



Proxy Advisor

Proxy Advisors are required to publish reports with key information showing what their recommendations and advice are based on.



Asset Manager

Asset Managers must publish reports showing their investment strategies for shareholders. They need to prove that their strategies are aligned with long-term goals.

SRD II requirements: Information transfer (Art. 3a, 3b, 3c)

The Shareholder Rights Directive II sets new obligations for various actors in the financial services industry. For information transfer, the specified minimum requirements in the implementing act apply. September 2020, the deadline for putting national transpositions into force, is approaching fast.



Art. 3a Shareholder identification

- Receive, respond to or pass on requests for shareholder identification without delay* for shareholders with more than 0.5% of voting rights
- At the request of the issuer, collection and provision of information on shareholder identity to the issuer - transmitted without delay*
- If not the end-intermediary, transmit the request for and the response to shareholder identification without delay to the next intermediary in the chain



Art. 3b Transmission of information

- Receive and transmit without delay*
 - information to enable the shareholder to exercise rights flowing from their shares or
 - a reference to the information on the website
- Provide the information to the shareholder in a standardised and timely manner*
- If not the end-intermediary, transmit information to the next intermediary without delay*, unless the information can be directly transmitted to the issuer



Art. 3c Execution of shareholder rights

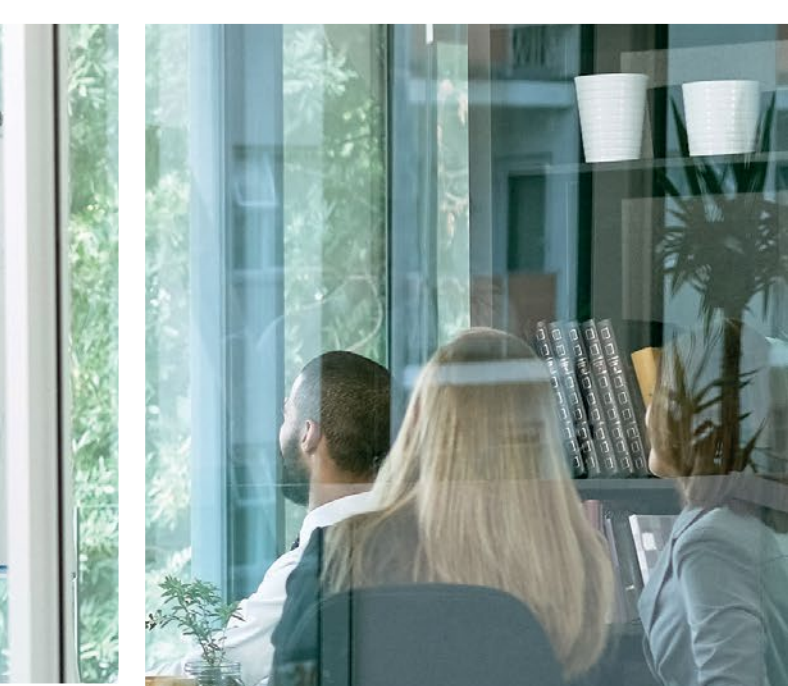
- Enable shareholders to exercise their rights regarding the general meeting or exercise rights upon explicit authorisation of and to the benefit of the shareholder
- For electronic votes, send electronic confirmation of receipt of votes
- At least upon request, send confirmation that votes have been validly recorded and counted up to three months after the vote
- If not the end-intermediary, transmit the confirmation to the next intermediary without delay*, unless the confirmation can be directly transmitted to the issuer



Data format, data protection & data security

- Transmission of information between intermediaries shall be executed in electronic and machine-readable formats, and allow for interoperability and straight-through processing by adhering to internationally applied industry standards
- Do not store personal data of shareholders transmitted for longer than 12 months after becoming aware that the person concerned has ceased to be a shareholder
- Implement appropriate technical and organisational measures to ensure security, integrity and authentication of the information originated by the issuer or third party initiating a corporate event

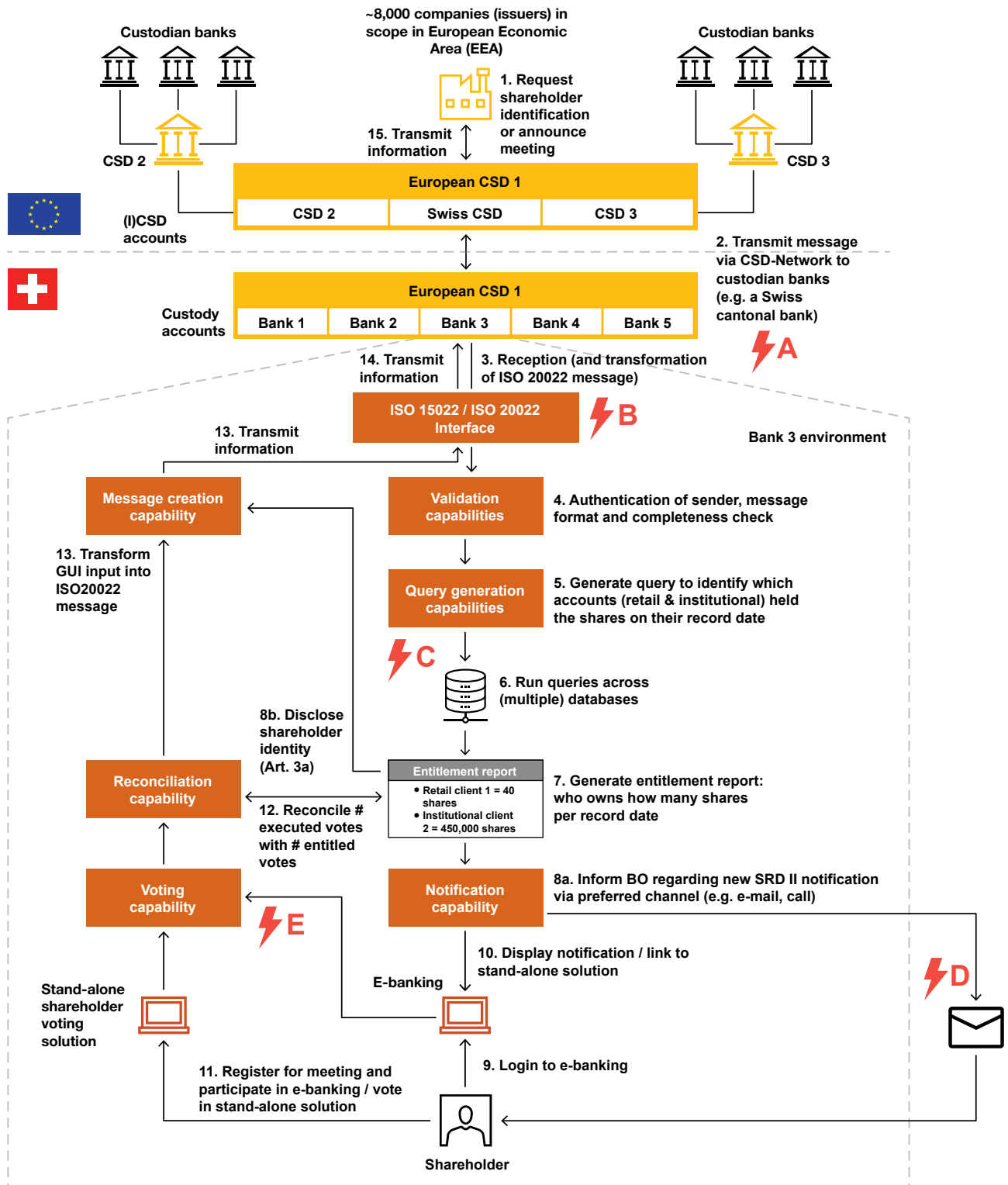
* Information received before 4pm: transmission no later than by close of business;
information received after 4pm: transmission no later than 10am on next business day



Simplified, illustrative SRD II eco-system from a Swiss bank's perspective

The simplified, illustrative SRD II ecosystem outlined below shows the message flow as well as the main challenges from a Swiss bank's perspective. Acknowledging the complexity of corporate action

processing across multiple intermediaries and applications, the implementation of the SRD II requirements must be tailored to the specific circumstances of every organisation.



Main challenges when implementing SRD II and how to address them

The implementation of SRD II is expected to result in a fundamental transformation of a bank's operational and technical landscape. Based on our experience, we have

outlined the main challenges the industry is currently facing and how they can be addressed.

Main challenges

How you can address them



Timely information transmission (< 24h)



SRD II requires the transmission of information without delay. Information received before 4pm has to be transmitted no later than close of business (same day). Information received after 4pm has to be transmitted no later than 10am the next business day.



Ideally, the information processing, i.e. shareholder identification request, is fully automated. If legacy systems prevent Straight-Through-Processing (STP), Robotics Process Automation (RPA) can help to minimise manual intervention.



Support for ISO 20022 message standard



Information transmission in the context of SRD II is expected to be operationalised on the new ISO20022 message standard. Migrating to the new message standard can be challenging as it affects many workflows and involves new terminology and data fields.



With a gap assessment, a bank can determine the size of its overall exposure to ISO20022 messaging in the context of SRD II and beyond (e.g. payments). In case of a large exposure, a full migration is advised. For smaller banks a tactical solution like a message converter might be more suitable.



Data availability and reporting capabilities



Shareholder information (retail and institutional) might be scattered across multiple databases and not be readily accessible. The corresponding capabilities for a timely creation of an entitlement report on shareholder level per issuer might be missing.



Following the identification of all data sources and interfaces in scope, the required reporting capabilities have to be designed and developed according to the requirements of the EU Commission's implementing act



Digitalisation of communication channel



Pre-SRD II, shareholders were in most cases informed by physical mail regarding any upcoming shareholder meeting. Compliance with the timely information transmission requires banks to digitalise their communication channels accordingly.



When digitalising the communication channel, it is essential to implement a solution that is tailored to each client segment's needs (e.g. UHNWI vs. institutional). Adopting a multi-stage approach consisting of written (e.g. e-mail, text) and verbal communication (e.g. phone call by relationship manager) is recommended.



Digitalisation of shareholder voting



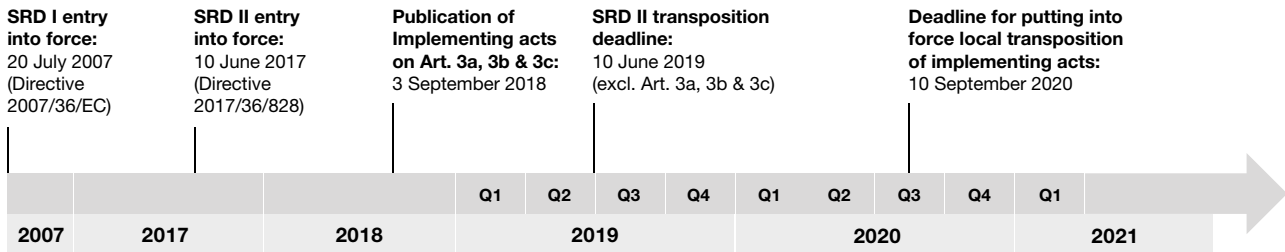
The SRD II requirement to facilitate shareholder voting rights mandates the provision of digital shareholder voting capabilities. This includes not only a Graphical User Interface for shareholders linked to or integrated with e-banking but also the corresponding processing and administration capabilities in the back-office.



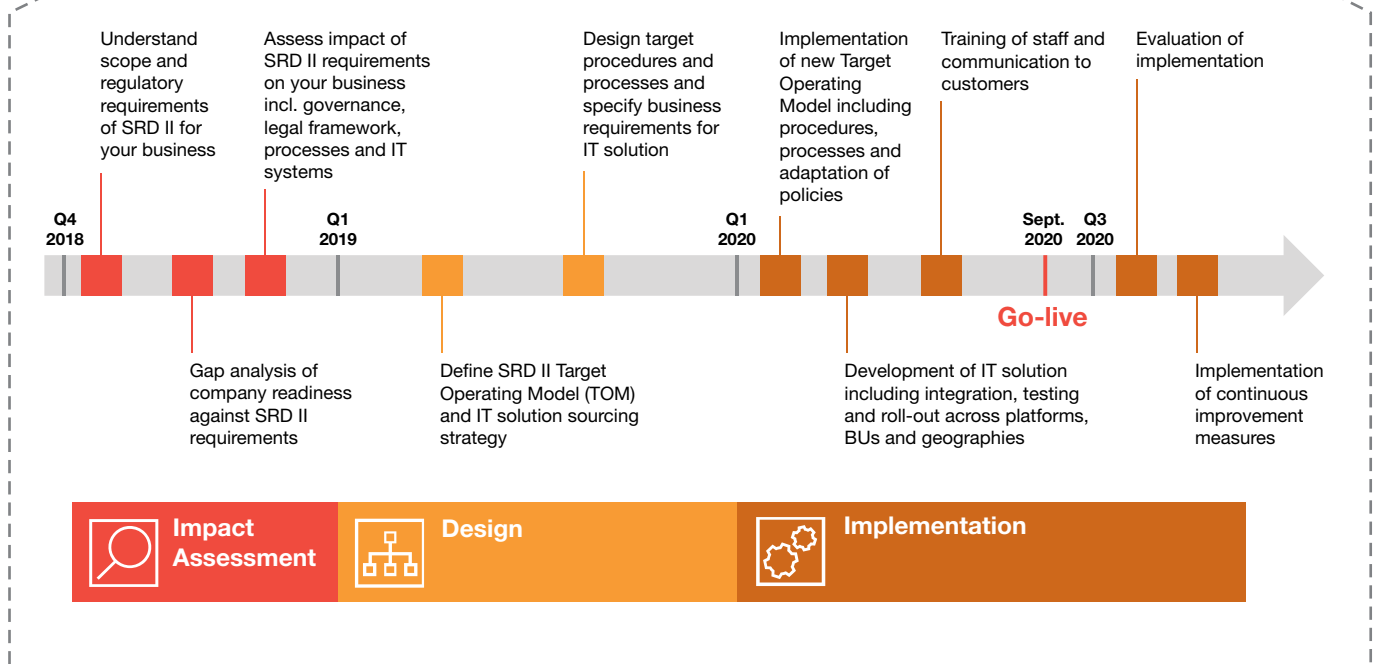
Designing a comprehensive target operating model including a business process model with targeted integration of third-party solutions can accelerate the implementation and help to mitigate resource constraints in the IT division. For example, instead of integrating shareholder voting in the e-banking, a stand-alone solution could reduce the required effort.

Timeline

Legislative timeline






Best-practice implementation timeline for (Swiss) banks



How can PwC support you?

PwC is best suited to support you on your journey to comply with the new SDR II regulation:

 Impact Assessment	 Design	 Implementation
<ul style="list-style-type: none">• Determine if you qualify as an intermediary in terms of SRD II• Conduct gap and impact assessment of company readiness against SRD II requirements	<ul style="list-style-type: none">• Define Target Operating Model (TOM) along key dimensions and IT solution sourcing strategy• Design target procedures and processes, specify requirements for IT solution and select	<ul style="list-style-type: none">• Implement Target Operating Model and develop IT solution incl. integration, testing & roll-out• Train staff and assist in the transition of your SRD II programme to your Business as Usual organisation

Our global team of experienced business, technology and regulatory leaders can also help you prioritise the changes needed for your organisation to move rapidly and efficiently to the new regulatory environment.



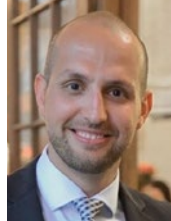
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