

Shareholder Rights Directive (SRD) Evaluation – follow-up questi

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Costs and fees related to the application of the SRDs

- 1 Please describe the main actions taken by your organisation/ your association members to comply with SRD2. These could include for example, the need to purchase and implement new IT equipment, design, and adjust certain processes, and training / familiarisation for staff. This would relate to things you would not have done had it not been for the SRDs, not things you might have been planning to do anyway, and maybe the SRDs just acted as a trigger for that.

"It all started with an intensive analysis of the new requirements from SRD2 and EU regulation 2018/1212, followed by the introduction into national law of more than 25 Member States. Several Clearstream experts participated in European and national working groups to understand the impact of SRD2. Our SMPG experts also contributed to setup new SWIFT/ISO messages for Shareholder Identification Disclosure and to request necessary changes for General Meetings and Corporate Actions messages to allow SRD2 compliance. Based on these results, our IT and functional experts have been involved to setup project teams and to write business and IT requirements. It is difficult to say which investments in systems and external providers are purely due to SRD, as Clearstream continuously invests in its systems and processes to provide post-trade infrastructure and securities services to the international market and 59 domestic markets worldwide. Looking at the timeframe since SRD2 was announced, Clearstream has invested several million euros in projects and activities to reduce complexity and simplify processes in its domestic markets, mainly in Germany, and to digitalise end-to-end processes to serve its global client base. Purely driven by SRD2, a new shareholder identification disclosure process was implemented as new automated processes under ISO20022 message formats were required. Corporate Actions and General Meetings services have already been offered and necessary changes have been made, as well as investments in external providers to support our service offering."

- 2 Can you estimate the one-off costs associated with the above actions for your company / a typical member, in terms of either EUR (ballpark figure) and / or staff time?

"Project costs of several million Euros, including running costs for external providers, internal staff, IT, and market-facing activities are close to a million a year."

- 3 Can you estimate changes to annual recurrent costs for your company / a typical member associated with the need to comply with SRD2, in terms of either EUR (ballpark figure) and / or staff time?

"SRD2 is only a fraction of our Asset Servicing process. These processes are organised on a central and global basis and there is typically little distinction between European equities traded on a regulated market (this is the typical SRD2 view of the directive/regulation) and other securities, or general meetings and corporate actions events that are not covered by SRD2. This includes bonds, funds and equities from other jurisdictions as well as European equities that do not meet the trading criteria or events not driven by the issuer itself (tender offers). It is our intention to provide clients with an Asset Servicing process that is SRD2 compliant, compliant to legal requirements where we operate and contracts in place with each of our clients."

One of the important aims of the SRDs was to ensure non-discrimination, proportionality, and transparency of costs – for example related to transmission of information and attendance of general meetings.

- 4 Has SRD2 led to any change in the fees charged by intermediaries to facilitate shareholder rights? If so, can you estimate these and how they might differ by service, country, or any other factor? We're particularly interested in fees charged for the exercise of rights cross-border. Can you provide examples of such fees? What problems have you encountered in this respect?

"Clearstream doesn't maintain accounts for end investors. Asset servicing is a small but complex part of the custody process, along with tax services. We have not seen any significant change in the fees charged by our custodian banks to Clearstream as a result of SRD2."

- 5 Has SRD2 led to increased transparency of fees charged by intermediaries in the transmission of information (e.g. for shareholder identity requests, or transmitting corporate information), for example, in the form of public fee schedules? Are fees considered proportionate and non-discriminatory? Can you provide any examples of the fees involved? What problems have you encountered regarding fees?

"Clearstream, in its role as ICSD and CSD in Germany and Luxembourg, complies with the CSDR requirements and has published its fee schedule for more than 15 years."

- 6 Are fees for attending general meetings proportionate, transparent and non-discriminatory? Do you have any examples of the fees in question that you can share with the study team?

"The Clearstream fee schedule can be found on: . Please note that fees for general meeting services will change by the end of 2024 as part of a major project to further harmonise the process for our clients."

- 7 Has SRD2 led to any efficiency gains or savings for you/ your members? If so, please describe the nature of these, and their magnitude in terms of EUR (ballpark figure) and / or staff time. We're particularly interested in the transmission of information and facilitation of shareholder rights cross-

border (e.g. speed, delays, costs).

"We do not see major efficiencies or savings as a result of implementing SRD2 in multiple jurisdictions with different national requirements. Prior to SRD2, Clearstream already had a service provider for general meetings to receive well-structured meeting details to enable STP processing of instructions from multiple sources. The problem is that several jurisdictions or individual issuers have introduced a processing requirement, which in some cases hasn't improved the process and has led to further complications. SRD2 foresees the direct communication between issuers and investors, but investors who are not located in the issuer's country are often not interested in being connected directly to the issuer (and often they appoint an agent to act on their behalf) and prefer to communicate via the chain of intermediaries to exercise their voting rights. Investors with hundreds of positions often prefer a simplified and harmonized process for a product (e.g. General Meeting or Corporate Actions) and expect from their depository bank to deal with the market and individual issuer complexity to focus on their key business to take the right investment for their organization or their fund investors. A good example of this is the requirement imposed by German issuers of bearer shares who require the final investor or last intermediary to certify ownership, also when the instruction is received via the chain of intermediaries (2 or 3, which is not unusual for cross-border)."

Wider ranging questions

- 8 Has SRD2 made any difference to the ease with which shareholders can exercise their rights cross-border in the EU? If so, please explain.

"Corporate Actions: Prior to SRD2, established processes defined in SLAs and T&Cs covered all markets and asset classes, including European equities traded on a regulated market. The timing of the distribution has, in our view, introduced a new level of complexity that was not necessary. In the institutional and bank-to-bank business such notifications were already provided within a very short timeframe. From the perspective of our clients who service retail investors, we do not see all the benefit that SRD2 had in mind. E.g. to inform shareholders of a dividend that will be paid in more than 8 weeks' time, when the position can be sold before the entitlement date, and the shareholder also receives information about the general meeting at which this dividend has to be approved. General Meeting: We notice an increase of instructions for domestic, but also cross-order securities from our clients. This goes beyond the scope of SRD2 (European issuers with shares traded on a regulated market). In our view, investors with large portfolios and multiple assets, sometimes hundreds or thousands of different securities, do not see the benefit of being in contact with each individual issuer. For such parties it is often more beneficial to have one central and harmonized process for their entire portfolio. Several providers like ISS provide such services to investors as well as intermediaries. In discussions with our clients and industry experts, we have also heard that requirements at the issuer level to identify the shareholder sometimes prevent shareholders from exercising their voting rights. This is particularly the case where the requirement differs from country to country, or even more complicated where the requirement differs at issuer level within the same country."

- 9 What do you consider the most important remaining barriers to the exercise of shareholder rights cross-border in the EU?

"SRD2 is limited to shares of EU issuers traded on a regulated market. This is 35% of all German shares held in dematerialised form at the CSD. To improve the asset servicing process, there should be no restriction on some equities; products where a corp. event is announced should follow such requirements. SRD2 had requirements for intermediaries to set structured processes. Starting at issuer level to provide a general meeting (GM) and corp. action (CA) notification that allows STP to and between intermediaries to shareholder (SH). A requirement for issuers/agents to accept GM instructions electronically from intermediaries is a must, as we see requests from investors and intermediaries to use the intermediary chain rather than interacting directly with the issuer. The only efficient way is where all parties involved are linked from start to end. The CA landscape shouldn't be over-regulated. Direct interaction between issuer and investor is wished, but accounts are held and operated by intermediaries. Cash as well as securities transactions are often required, e.g. tax, and this cannot be handled by issuers/investors. On GMs: we believe that a harmonised operational process within the EU would be best to reduce complexity, but also that different company laws lead to fictions. Proxy voting through the intermediary chain isn't considered 'electronic' and we think that a commitment to this helps to improve end-to-end flows. Record date can be harmonised across the EU and the compilation of the list of SH with voting rights, but only with the end-to-end process including a communication via intermediaries (esp. for cross-border activities). Clearstream sees new expectations from intermediaries and issuers (e.g. Art 10), which is a manual and non-STP, but allows the trust of following parties to the message they receive. As an FMI, we strengthen the EU capital market and fully support a harmonized notification flow or the electronic processing of instructions."

- 10 How widespread are these barriers (above)? Are they more present in some Member States than others (if yes, which)? If you were to venture a guess, what percentage of shareholders in the EU overall (EU and Third Country) would be affected by these barriers (e.g. up to 20%/ between 20-40%; 40-60%; between 60-80%; more than 80%)? Is the situation improving or not since the implementation of the SRDs?

"More than 80%."

- 11 Looking ahead, what are the most important changes needed to the SRD framework? Name up to five key changes.

"i)The asset in scope of the SRD framework ii)Harmonization of the European General Meeting process iii)Considering the role of market infrastructures, such as ICSDs and CSDs, as well as the benefits that intermediaries provide. iv)Considering European intermediaries operating account for non-European investors as well as for assets of non-European issuers within the same Asset Servicing process."