



7 February 2019

New proposed FCA rules on shareholder engagement

The EU Revised Shareholder Rights Directive (SRD II) is currently required to be implemented by 10 June 2019. It seeks to encourage long-term shareholder involvement through increased transparency and engagement between asset managers and asset owners.

The FCA has issued a consultation paper (CP19/7) which sets out its proposed new rules to implement SRD II. The FCA, however, has indicated that in the event of a no-deal Brexit it would not proceed to implement these new rules although in that event it is likely to put forward new proposals.

Under the FCA's proposed rules, FCA-authorized asset managers must comply with a number of requirements including:

- A requirement for asset managers to develop and publicly disclose a monitoring and engagement policy. They must also publicly disclose on an annual basis how the policy has been implemented.
- A requirement for certain asset managers (including those acting for pension schemes) to disclose information on their investment strategies.
- A requirement for asset managers to disclose annually how they have exercised their voting rights in investee companies (other than for "insignificant" votes).

Firms may instead choose to disclose publicly a clear and reasoned explanation of why they will not comply. The statement is likely to need to be fuller than the current non-compliance statements often seen under the Financial Reporting Council's Stewardship Code (**Code**).

The FCA intends to apply the rules to FCA-authorized asset managers as well as full-scope AIFMs and UCITS management companies in respect of all shares admitted to trading on an EEA regulated market *or a comparable non-EEA market*. The wording in italics goes beyond the requirements in SRD II. Similar proposals are made for life insurers.

TRIVERS SMITH

Requirements in respect of other types of instruments such as debt instruments would generally be covered by the Code which is also consulting on updates. FCA-authorized asset managers are not strictly required under the FCA rules to comply with the Code although they are generally required to disclose whether or not they do so.

The FCA has also issued jointly with the Financial Reporting Council a Discussion Paper which sets out their views on what constitutes effective stewardship. According to the Discussion Paper, the types of behaviour associated with effective stewardship include: having a clear purpose; the active monitoring of assets (including constructive oversight, engagement with issuers and challenge) and having a supportive culture and appropriate institutional structures. There is also an emphasis on public reporting and disclosure of any stewardship activities undertaken.

The FCA invites comments on its Consultation Paper by **27 March 2019** and on its Discussion Paper by **30 April 2019**.

Links to the various papers are set out below:

[DP 19/1: Building a regulatory framework for effective stewardship](#)

[CP 19/7: Consultation on proposals to improve shareholder engagement](#)

[Proposed Revision to the UK Stewardship Code](#)

[Annex A: Revised UK Stewardship Code](#)

[Annex B: Summary of changes from 2012 UK Stewardship Code](#)

FOR FURTHER INFORMATION, PLEASE CONTACT

10 Snow Hill
London EC1A 2AL
T: +44 (0)20 7295 3000
F: +44 (0)20 7295 3500
www.traverssmith.com



Tim Lewis
Partner, Head of Financial Services and Markets
E: tim.lewis@traverssmith.com
T: +44 (0)20 7295 3321



Jane Tuckley
Partner, Financial Services and Markets
E: jane.tuckley@traverssmith.com
T: +44 (0)20 7295 3238



Phil Bartram
Partner, Financial Services and Markets
E: phil.bartram@traverssmith.com
T: +44 (0)20 7295 3437



Stephanie Biggs
Partner, Financial Services and Markets
E: stephanie.biggs@traverssmith.com
T: +44 (0)20 7295 3433