

**Senior management arrangements, Systems and Controls**

## Chapter 3

# Systems and controls

## 3.4 SRD requirements

### Application

**3.4.1** **R** This section applies to:

- (a) a *UK insurer*; and
- (b) a *UK pure reinsurer*,

doing *long-term insurance business*.

**3.4.2** **R** The *rules* in this section apply to the extent that a *firm* is investing (or has invested), directly or through an *SRD asset manager*, in shares traded on a *regulated market*.

**3.4.3** **G** The defined term *regulated market* has an extended meaning for the purposes of this section. The definition includes certain markets situated outside the *United Kingdom*.

### Engagement policy and disclosure of information

**3.4.4** **R** A *firm* must either:

- (1) (a) develop and publicly disclose an *engagement policy* that meets the requirements of **SYSC 3.4.5R** (an “*engagement policy*”); and
- (b) publicly disclose on an annual basis how its *engagement policy* has been implemented, in a way that meets the requirements of **SYSC 3.4.6R**; or
- (2) publicly disclose a clear and reasoned explanation of why it has chosen not to comply with any of the requirements imposed by (1).

[**Note:** article 3g(1) and (1)(a) of *SRD*]

**3.4.5** **R** The *engagement policy* must describe how the *firm*:

- (1) integrates shareholder engagement in its investment strategy;
- (2) monitors investee companies on relevant matters, including:
  - (a) strategy;
  - (b) financial and non-financial performance and risk;

- (c) capital structure; and
- (d) social and environmental impact and corporate governance;
- (3) conducts dialogues with investee companies;
- (4) exercises voting rights and other rights attached to *shares*;
- (5) cooperates with other shareholders;
- (6) communicates with relevant stakeholders of the investee companies; and
- (7) manages actual and potential conflicts of interests in relation to the *firm's* engagement.

[Note: article 3g(1)(a) of *SRD*]

3.4.6

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- (1) The annual disclosure must include a general description of voting behaviour, an explanation of the most significant votes and the use of the services of *proxy advisors*.
- (2) (a) Subject to (b), a *firm* must publicly disclose how it has cast votes in the general meetings of companies in which it holds *shares*.  
 (b) A *firm* is not required to disclose votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.

[Note: article 3g(1)(b) of *SRD*]

3.4.7

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- (1) The applicable disclosures or information referred to in ■ SYSC 3.4.4R to ■ SYSC 3.4.6R must be made available free of charge on the *firm's* website.
- (2) Where an *SRD asset manager* implements the engagement policy, including voting, on behalf of a *firm*, the *firm* must make a reference as to where such voting information has been published by the *SRD asset manager*.

[Note: article 3g(2) of *SRD*]

**Investment strategy and arrangements with SRD asset managers**

3.4.8

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A *firm* must disclose publicly how the main elements of its equity investment strategy are consistent with the profile and duration of its liabilities, in particular long-term liabilities, and how they contribute to the medium- to long-term performance of its assets.

[Note: article 3h(1) of *SRD*]

3.4.9

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- (1) Where an *SRD asset manager* invests on behalf of a *firm*, whether on a discretionary client-by-client basis or through a collective investment undertaking, the *firm* must publicly disclose the following information regarding its arrangement with the *SRD asset manager*:

- (a) how the arrangement with the *SRD asset manager* incentivises the *SRD asset manager* to align its investment strategy and decisions with the profile and duration of the liabilities of the *firm*, in particular long-term liabilities;
  - (b) how that arrangement incentivises the *SRD asset manager* to make investment decisions based on assessments of medium- to long-term financial and non-financial performance of the investee company, and to engage with investee companies in order to improve their performance in the medium- to long-term;
  - (c) how the method and time horizon of the evaluation of the *SRD asset manager's* performance and the remuneration for asset management services are in line with the profile and duration of the liabilities of the *firm*, in particular its long-term liabilities, taking into account its absolute long-term performance;
  - (d) how the *firm* monitors portfolio turnover costs incurred by the *SRD asset manager* and how it defines and monitors a targeted portfolio turnover or turnover range; and
  - (e) the duration of the arrangement with the *SRD asset manager*.
- (2) Where the arrangement with the *SRD asset manager* does not contain one or more such elements, the *firm* must give a clear and reasoned explanation why this is the case.

[Note: article 3h(2) of *SRD*]

#### 3.4.10

**R**

The information referred to in ■ SYSC 3.4.8R and ■ SYSC 3.4.9R must:

- (1) be made available, free of charge, on the *firm's* website; and
- (2) be updated annually, unless there is no material change.

[Note: article 3h(3), first paragraph of *SRD*]