

Chapter 2

Conduct of business obligations

2.2B SRD requirements

Application: Who?

2.2B.1

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This section applies to:

- (1) a *UK MiFID investment firm* that provides *portfolio management services* to investors;
- (2) a *third country investment firm* that provides *portfolio management services* to investors;
- (3) a *UK UCITS management company*;
- (4) an *ICVC* that is a *UCITS scheme* without a separate *management company*; and
- (5) a *full-scope UK AIFM*.

[Note: article 2(f) of *SRD*]

Application: What?

2.2B.2

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This section applies to the extent that the *firm* is investing (or has invested) on behalf of investors in *shares* traded on a *regulated market*.

2.2B.3

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

Application: Where?

2.2B.4

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- (1) This section applies in relation to activities carried on by a *firm* from an establishment in the *United Kingdom*.
- (2) This section also applies in relation to activities carried on by a *UK firm* from an establishment in another *EEA State*.

Engagement policy and disclosure of information

2.2B.5

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A *firm* must either:

- (1) (a) develop and publicly disclose an *engagement policy* that meets the requirements of **COBS 2.2B.6R** (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 ■ COBS 2.2B.7R; 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*]

2.2B.6

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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*]

2.2B.7

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- (1) The annual disclosure must include a general description of voting behaviour, an explanation of the most significant votes and reporting on 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*]

2.2B.8

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The applicable disclosures or information referred to in ■ COBS 2.2B.5R to ■ COBS 2.2B.7R must be made available free of charge on the *firm's* website.

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

Transparency of asset managers

2.2B.9

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- (1) This rule applies where a *firm* invests on behalf of an *SRD institutional investor*, whether on a discretionary client-by-client basis or through a collective investment undertaking.
- (2) The *firm* must disclose to the relevant *SRD institutional investor*, on an annual basis, how its investment strategy and the implementation of it:
 - (a) complies with the arrangement referred to in (1); and
 - (b) contributes to the medium- to long-term performance of the assets of the *SRD institutional investor* or of the *fund*.
- (3) The disclosure must include reporting on:
 - (a) the key material medium- to long-term risks associated with the investments;
 - (b) portfolio composition;
 - (c) turnover and turnover costs;
 - (d) the use of *proxy advisors* for the purpose of engagement activities;
 - (e) the *firm's* policy on securities lending and how that policy is applied to supports the *firm's* engagement activities if applicable, particularly at the time of the general meeting of the investee companies;
 - (f) whether and, if so, how, the *firm* makes investment decisions based on evaluation of medium- to long-term performance of an investee company, including non-financial performance; and
 - (g) whether and, if so, which conflicts of interests have arisen in connection with engagement activities and how the *firm* has dealt with these conflicts.

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

2.2B.10

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A *firm* may provide the disclosure in ■ COBS 2.2B.9R by making the relevant information publicly available.