Title: The Proxy Advisors (Shareholders' Rights) Regulations 2019	De minimis assessment
SI No: Click here to enter text.	**Date: 18/04/2019**
Other departments or agencies: Click here to enter text.	**Type of regulation: EU**
Contact for enquiries: **Daniel.Rusbridge@hmtreasury.gov.uk**	**Date measure comes into force: 10/06/2019**
Cost of Preferred (or more likely) Option £0.2m over 10 years	**Net cost to business per year** (EANDCB in 2016 prices) **£0.02m**

1. What is the problem under consideration? Why is government intervention necessary?

This SI transposes article 3j of the Second Shareholder Rights Directive (SRD II). SRD II aims to improve stewardship of firms by institutional investors. Proxy advisors primarily offer voting services and advice to investors, and therefore can have a considerable impact on their clients' stewardship of the firms in which they invest. Concerns have been raised about a possible lack of transparency in the way proxy advisors deliver their services, and the resulting risk of low quality services. The extension to article 50 of the Lisbon Treaty until 31st October means that the UK continues to hold its status as a member of the EU. The UK therefore continues to have the membership rights and obligations of a member state. This includes the transposition of any EU Directives that are due to come into force during this period.

2. What are the policy objectives and the intended effects?

By placing disclosure obligations on proxy advisors with regard to how they conduct their business, including whether they apply a code of conduct, how they produce their advice and voting recommendations, and how they manage conflicts of interests, SRD II aims to increase transparency, helping investors and asset managers looking to procure the services of proxy advisors to make informed decisions about which will best meet their needs.

3. What policy options have been considered, including any alternatives to regulation? Please justify preferred option

Option 0: No action – Would mean that a risk remains of lack of transparency in the way that proxy advisors deliver their services, leading to investors purchasing inappropriate advice that leads to weak stewardship by these investors, as well as bringing infraction risk, given that it would breach the obligations of our continued membership of the EU.

Option 1: Imposing disclosure requirements in Art 3j SRD II (preferred option) – Proportionate approach allowing proxy advisors' clients to make informed procurement decisions.

Option 2: Comprehensive FCA regulation of proxy advisors – Would constitute significant gold-plating that is costlier and more burdensome on business. We do not have evidence to suggest that this approach is necessary or justified at this time.

4. Please justify why the net impacts (i.e. net costs or benefits) to business will be less than £5 million a year.

What will businesses have to do differently?

- Store, manage, publish and regularly update information with regard to how they conduct their business including whether they apply a code of conduct, how they produce their advice and voting recommendations and how they manage conflicts of interests.
- Light-touch registration with the Financial Conduct Authority (FCA).
- Proxy advisors already hold the information required and are familiar with the requirements of the SRD II. Familiarisation costs are therefore negligible, and the full cost of complying with the requirements are accounted for in the annual report (see below).

How many businesses will this impact per year?

- 8

What is the direct cost/benefit per business per year?

- The EU Impact Assessment estimates that each publication would cost each proxy advisor 20-50 manhours at 1,000 - 2,500 EURO in total at 2014 prices[1]. Disclosures would need to be updated annually. Adjusting for increases in the national weekly earnings index, and using current exchange rates suggest costs of £1,300 - £3,300.
- FCA expect that they will charge de minimis fees for registration, which are expected to be £1,000 per year.
- This suggests overall EANDCB figure of £0.02m.

5. Please confirm whether your measure could be subject to call-in by BRE under the following criteria. If yes, please provide a justification of why a full impact assessment is not appropriate:

a) **Significant distributional impacts (such as significant transfers between different businesses or sectors)**
No

b) **Disproportionate burdens on small businesses**
No

c) **Significant gross effects despite small net impacts**
No

d) **Significant wider social, environmental, financial or economic impacts**
No

e) **Significant novel or contentious elements**
No

Sign-off for de minimis assessment: SCS

I have read the de minimis assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

SCS of Personal Finances & Funds

Signed: ***John Owen*** Date: 23/04/2019

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014SC0127&qid=1551794215241&from=EN, p62, section 8.4

SCS of Better Regulation Unit

Signed: ***Gemma Peck*** Date: 23/04/2019

Sign-off for de minimis assessment: Minister

I have read the de minimis assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed: ***John Glen MP*** Date: ***09/05/2019***