



REFINITIV EXPERT TALK

THE NEED FOR SHARE DATA AS FIRMS INVEST IN LARGE VOLUMES OF EQUITIES INTERNATIONALLY

Shareholding disclosure regulations ensure that regulators are aware when investors have a controlling interest in a company which puts them in a materially market moving position. This is not a new challenge for financial institutions, but the amount of data regulators hold to enforce the reporting requirements here is expanding.

At the same time, the trend in the equities markets is seeing institutional investors take large positions in more mid-cap equities internationally, which is creating additional obligations in shareholding disclosure for them.

Here Russell Ironside, PRS Propositions Manager at Refinitiv, tells us about what is driving the need for more data in this area.

Q1. What tools do investors need to comply with shareholding disclosure requirements?

RUSSELL IRONSIDE: The regulations require constant reporting of the investor's shares. In addition, they require an aggregation to be run on the share amount types. Firms use share data, which is the denominator in a complex, factor-like equation, to determine their percentage of ownership of a given company.

Institutional investors also need software that uses Refinitiv's share data as an input, alongside their ownership positions and the appropriate jurisdictional rules to determine whether and how to disclose to each regulator. The jurisdictional rules used by software providers are governed by changes to the law that are fed into the software and are constantly being updated.

Q2. How have the sanctions for non-compliance increased over the years and would you say enforcement has become more aggressive?

RUSSELL: The regulators certainly have more data available to them. And firms fear that the additional reporting obligations under the second Markets in Financial Instruments Directive (MiFID II) have led to additional intelligence that could be used to determine the equity positions of investors and to chase non-disclosure of positions.

Some of the fines have already been devastating. One hedge fund, for example, had a 20-million-euro penalty early last year for obstructing an investigation and not adequately disclosing its positions.

Q3. What are the changes driving the renewed focus on shareholding disclosure?

RUSSELL: As a result of large amounts of net inflows into equities, we have seen a lot of sovereign wealth funds diversifying outside of their local market and investing internationally.

Hedge funds are being set up with the purpose of taking large positions in smaller, mid-cap companies globally. And given that disclosures tend to be required between 2-5% ownership depending upon the jurisdiction, they will likely have to disclose these positions to the regulators.

Q4. Can you talk about the complexities facing firms with shareholding disclosure obligations in multiple jurisdictions?

RUSSELL: The jurisdiction applicable to a given shareholding defines which regulator must be reported to and how. In addition, the concept in Europe, of home member states creates complexities in being able to establish this, which

Refinitiv is able to help clients solve for.

Again, in Europe, the principle of issuer thresholds creates reporting obligations for institutional investors, not only to the regulators in their market-monitoring capacity, but also to issuers in certain jurisdictions.

Q5. What are the challenges firms are facing in managing data for the purposes of these rules?

RUSSELL: If the investor does not have reliable share amount or denominator data, or perhaps is not aware that their overall position in a given equity has increased, they are at risk of missing a disclosure obligation.

Timely and accurate data is always important but is clearly impacted by corporate events such as share buy-backs where the amount of shares decreases, potentially meaning that an investors' overall percentage of ownership increases, and they are required to make a disclosure. Similarly, if a firm has moderate to large positions in two companies in a takeover situation, their position can change materially when the shares are transferred, and this can result in a reporting obligation.

There is also scrutiny on what are known as 'sensitive industries,' for example, for aviation, to ensure that no one firm is taking too large a position in those types of securities.

Q6. What is Refinitiv's data offering to help institutional investors manage their disclosure processes and what sets you apart in this area?

RUSSELL: Complying with shareholding disclosure regulations is not as simple as pulling outstanding share amounts from a company report or data terminal. It is a complex undertaking that requires a diverse amount of data; in one jurisdiction, you may need the outstanding shares, but in another, you might need the issued shares only, or the closely held, or the treasury shares and so on.

Refinitiv supplies both the class level shares and voting rights as well as the aggregated, issuer level shares for global equity markets, including unlisted share amounts. Our shareholding disclosure service also covers all of the referential data required, including business classification schemes for sensitive industry determination, instrument taxonomy and analytics. We provide a file with the issuer thresholds, for the countries and companies that have their own threshold requirements in addition to the regulators'. And we also have a takeover panel package to give advance warning of takeovers occurring in the industry.

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