

## Protecting Against Brokers Going Bust

How does one guard against your stockbroker going bust? Or falling into administration as is what typically happens?

These are a few simple things you can do to minimise the risk of having your assets frozen for months or years in an administration of a stockbroker, or being unable to recover them at all:

**1. Pick your stockbroker carefully.** Make sure it is a financially stable business of a decent size and is domiciled in the UK (and hence is regulated by the FCA and covered by the Financial Services Compensation Scheme - FSCS). You can of course obtain the accounts of any company registered in England from Companies House, but it will be even better if it is a company listed on the stock market because you can more easily receive financial information on the company and get RNS announcements about their business activities and status. Note that picking the cheapest broker in terms of transaction costs should not be the prime consideration because the costs you will incur in both your time and in other ways from picking a broker who is unlikely to stay in business is much higher than the few pounds you might save in deal costs on each trade. In summary, pick a stockbroker you can trust.

**2. Use more than one stockbroker.** Having all your eggs in one basket is never wise. Having all your assets frozen because your stockbroker is in administration is not a pleasant thought. Or simply finding that your broker's on-line system is not accessible because it has suffered a melt down or your account has been hacked by fraudsters can be disconcerting. It is wise to have an alternative you can switch your business to if required. Also bear in mind that the FSCS only covers your losses for up to £50,000 with any one stockbroker.

**3. Don't keep large amounts of cash at your stockbroker.** Because of the £50,000 limit mentioned above, which is less than for a high street bank account, the fact that few brokers now pay interest on cash balances, and because they are likely to be less stable than a major high street bank, don't keep a lot of cash at your brokers.

**4. Consider using a Personal Crest Account or Paper Share Certificates.** Most brokers put new clients straight into a nominee account and many do not offer other alternatives. The problem with nominee accounts is that legally the shares you purchase are actually in the nominee operator's name (i.e. your stockbroker's name). It is their name on the share register of the company not yours. In addition they are usually "pooled" nominees where your holdings are mixed up with lots of other client holdings, which can take a lot of sorting out when administration occurs. The key is to have your name on the register of the company (which incidentally is the best evidence in law of your ownership) by either being a Personal Crest Member or holding a Paper Share Certificate. This applies only to direct UK listed share holdings - all mutual funds and overseas shares are in effect in a nominee account which may be another good reason not to hold unit trusts, OEICs or ETFs but only investment trusts if you want to hold a "collective" asset rather than individual company shares. Unfortunately ISA's and SIPP's have to currently be held in nominee accounts.

If an administration takes place, a Personal Crest Account may take some time to transfer to another broker, but the evidence of your ownership of the shares in the account cannot be disputed. Your ownership will be recorded in the Crest system operated by Euroclear and a matching record will be on the share register of the company.

Holding a paper share certificate is even better (although there are some disadvantages in the modern world and they are not as secure) for the simple reason that you can trade shares held in this form through any broker. So it does not matter that the broker you purchased them through has gone bust. Paper share certificates will be no longer legal in a few years time because of an EU Directive but it is hoped that some alternative electronic system is put in place before then.

ShareSoc has now created a web page at this address: <http://www.sharesoc.org/brokers.html> which gives you the names of stockbrokers who still offer Personal Crest Accounts or Certificated share dealing. We will try and maintain it in future with updates as they come to our attention.

**5. Diversify your brokers.** You can of course hold both paper share certificates, personal crest accounts and nominee accounts at the same time with multiple different brokers. So you can spread your risks quite well even if you have a large portfolio. Just as you diversify your investment holdings within a portfolio, you should diversify your stockbroking accounts and types.

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