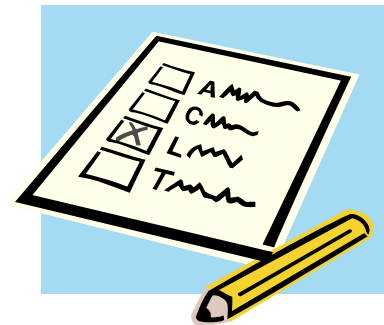




## Shareholder Rights Meeting Report

On the 14th October 2014 ShareSoc held a meeting to promote its campaign to improve shareholder rights, particularly for those in nominee accounts.

At present most private investors purchase shares in nominee accounts. With a very few exceptions this means that they have no automatic rights to vote, to attend General Meetings of companies or even receive information on the affairs of the company. **Investors in public companies have been disenfranchised and their rights undermined.**



Stan Grierson, ShareSoc Chairman, acted as compere for the meeting and he commenced by introducing the speakers - namely: **John Kay** (author of the Kay Review and FT writer), **Michael Kempe** from **Capita** representing the **ICSA Registrars Group**, **Peter Swabey** from **ICSA**, **John Lee** (Lord Lee of Trafford, a well known FT writer and private investor), **Cas Sydorowitz** from **Georgeson Inc**, **Paul Scott**, a well known private investor and blogger and **Roger Lawson** from **ShareSoc**. What follows is a summary of what each speaker talked about and the Q&A session at the end - both paraphrased or summarised for brevity.



### John Kay

Prof. Kay commenced by discussing the Kay Review which was undertaken two years ago for Vince Cable and the BIS Department. His premise was that markets are there for the users of markets - not for market operators. He said you might think that's a rather obvious and bland statement, but one that is not obvious to most people in the financial system today. There are lots of intermediaries and it's a lengthy chain. Each element imposes their own costs on the chain and their interests are not aligned with those of savers or companies [the issuers of shares]. In addition their time horizons are shorter than that of savers or companies and there is a bias towards action. So Prof Kay said he came to the conclusion that the best way to improve the return on your savings was to reduce the intermediation costs. But some of the intermediaries do provide a useful service. He also made the point that the vast majority of people don't necessarily want to make their own investment decisions - they neither have the time nor skills to do so. But we should not erect obstacles to those who wish to have a direct relationship with companies.

He noted that the particular nominee system we have in UK emerged in the 1990s when large institutions obtained ready access to computers but most private individuals did not. That is actually no longer true.

One of the things Prof Kay did for the Kay Review was to look at some aspects of his own personal affairs and when he did so he was surprised when he read the small print of the nominee agreement that the protections therein were less than he had assumed. He then decided to become a Personal Crest Member and that is one reason why he is supporting the theme of this particular exercise.

Prof Kay suggested that investors have done poorly in the last fifteen years while markets have not been performing well in their traditional role of fund raising. But intermediaries have done very well. He said that we need to address this issue.



### **Michael Kempe**

Mr Kempe said that we work and live in an innately unfair market at the moment. If you want to do things quickly and with lower risk, you have to hold your shares in electronic form. We should not be in the position where those holding paper share certificates are disadvantaged.

But part of this debate has been taken out of our hands. Dematerialisation is going to come. All new shares must be issued in electronic form by 2023, and existing ones converted by 2025 - the legislation is already in place. There will be no paper share certificates after 2025. Whether it is a good or bad thing is a debate for another day.

The question is how this is done. The real possibility is that we can create a market that is much fairer and much better than the one we have today. One where private shareholders do not have to go through an intermediary or nominee to buy/sell shares or participate in corporate actions.

Mr Kempe made it clear he was "Pro-choice" in terms of how shareholders held their shares. But he does not want to rule out nominees. He noted that his group had been working for several years to come up with a practical industry-wide model. They have agreed a number of principles [see the copy of Mr Kempe's presentation at the end of this document] and one of the key ones is that "shareholder rights must be protected". It does not force you into a nominee account.

Issuers are very keen to get on and do it rather than wait until 2025. Why wait? But nothing is likely to happen before the next general election in 2015.

The proposal is that the structure of the market remains essentially the same. The new "direct holding" (see slides) is equivalent to the current certificated holding. Your name will be on the register but instead of a paper certificate you will have a "Shareholder-Id". A proposal based on this model is being sent to the BIS Department but two other models are being considered that would be less beneficial for individuals.

Your Shareholder-Id will be equivalent to your bank account number and you will have a direct relationship with the issuer. This will remove the paper chase entirely and allow you to do everything in electronic form.

Mr Kempe said that obviously it's not that easy. They are seeing some odd ways to implement the EU requirement for dematerialisation in other countries. But they are aiming for a seamless transition in the UK.

They believe the proposals keep shareholder choice and direct shareholder rights. Private investors will be able to do things on a level playing field with institutions. Implementation may be 2, 3 or 4 years away. But he emphasised that it is important private shareholders make their voice heard. Sometimes it is not.



### **Peter Swabey**

He suggested that some people are wary of dematerialisation, and frankly rightly so. Some people see it as a further step in the rule of the nominee service provider with the associated reduction in shareholder rights. He indicated that this is exactly what some people would like to see. He said that the interests of nominee operators are not necessarily yours.

Nominee operators are not necessarily a bad thing. Many would argue it is in the customers interests to use them, and for many investors it probably is. Paying someone else to handle the administrative details may well be money well spent. But for many of you it is not. That is the critical issue.

You want to retain your shareholder rights. You don't want to lose them in a bureaucracy that may or may not make arrangements for you to attend general meetings and vote, and if it does will probably charge you a fee that is high enough to deter you from approaching them to ever do it again.

But you have a choice. You can be directly registered with the company. Although there are drawbacks and costs associated with certificated holdings. But if you invest via ISA or SIPP accounts, you have no choice. In Mr Swabey's opinion that is wrong.

Mr Swabey then took a show of hands of the audience on how they held shares (see photo above). A large number used nominee accounts for their primary holding but there were also a fair number of certificated holders and personal crest members.

He stated that the proposals as outlined by Michael Kempe do not require you to use an intermediary. And from the point of view of companies, that is really important. Companies like direct share ownership. Because a direct relationship with their institutional shareholders enables them to understand more easily what the bulk of their shareholders want them to do. But equally they like engagement with retail shareholders.

Retail shareholders are of interest because they are "engaged". In most cases they have made a deliberate decision to invest in a company, and companies like that. You are more likely to take a view on the long term prospects for a company and companies always like long term investors. Mr Swabey mentioned going to the Marks & Spencer general meeting when there was a take-over bid from Philip Green under consideration. The voices of private shareholders, who supported the existing management, were a powerful message to the company and to the bidder.





### **John Lee**

Lord Lee said that in his 50 years as a private investor he has encouraged investors to have a direct relationship with companies and be long term holders. In his judgement, there is a very substantial gap between boards and the average private investor. Very few private shareholders make the effort and similarly companies don't.

Lord Lee supports nominee accounts from the administration point of view, as a larger than average private shareholder, but recognises that you become disenfranchised. So we have to look at ways to improve the situation. He likes the Shareholder Id card idea - that makes sense.

As far as companies are concerned there should be some point of contact for private investors - this would be an improvement. Companies could do much more such as holding private days for shareholders so as to develop relationships with their shareholders.

Another of his ideas is to have compulsory meetings after AGMs with non-executive directors.

He suggested a huge amount could be done to improve matters as there is currently a very substantial gap between boards and private investors.



### **Cas Sydorowitz**

Mr Sydorowitz said he worked for Georgeson, a proxy solicitation service. They are often called in when there are strategic issues which require support from a wider shareholder base, including retail shareholders, than a few institutions. But brokers often do not pass on information to their clients. Many do not facilitate voting.

Georgesons role is to help companies communicate directly with the end beneficiaries and to help facilitate voting. That we do via direct mail campaigns and by phone calls to ensure investors know there is an event coming up and that their vote is important.

But with people moving into nominee accounts, proxy solicitation is becoming quite difficult, as many have expressed already. For example we have found brokers charging people to vote or to attend meetings, sometimes in excess of someone's own holding position (these can be where companies are in a distressed position and the value of shares may be quite low).

Mr Sydorowitz said that they are often amazed how difficult brokers make it for issuers to reach out to the shareholders. Corporations are entitled to ask who the beneficial owners are (we undertake that on their behalf), but some brokers will not disclose their clients names or their address details. This makes it impossible for companies to reach out to them. All they can do is send notices of meetings to the registered holder [the nominee operator], for forwarding to their clients but in many instances we know this does not happen. There is little the company can do in that case, even when they have set up web site platforms to facilitate voting for end beneficiaries.

The brokers have sometimes challenged the votes that were submitted by such platforms as not necessarily being valid votes from their clients. That is surely the worst case situation. The corporation is paying for setting up the system but brokers frustrate the overall process.

It is worth shareholders looking at their contracts with brokers to see if they will notify you of corporate actions, whether they will facilitate voting and whether it will be electronic (i.e. not by paper - electronic voting makes it simpler for them and for corporations),

He gave a word of caution regarding dematerialisation into nominee accounts - the rights you have as a registered shareholder may not be mirrored in the new nominee world, and may not provide the rights you have at present.

Companies spend a lot of time on communicating with retail shareholders, i.e. in direct shareholder engagement, but if you hold shares through a nominee account that makes it much more difficult.



### **Paul Scott**

Mr Scott indicated he had been a professional small cap investor since 2002 and said he intended doing a rant about how the current system is terrible but this had been pre-empted by the previous speakers. He was glad that ShareSoc had taken up the issue of shareholder democracy because he considered this an area where change was long overdue. He could not see why, in the electronic age, we cannot include all shareholders in company votes. We do our banking

on-line, we buy and sell shares on-line, so why on earth can't we vote on-line on the same basis? We have had this technology for 20 years so we need to crack on and get it done.

What's wrong with the existing system? The main one is that very few private shareholders actually vote. You can make arrangements to vote, but the vast majority of small shareholders don't bother. And that creates an "absentee owner" class.

Mr Scott said he often phoned companies and frequently the finance director says that they need to check that he is shareholder. But he has to tell them they won't find him on the list as it's via a nominee. That immediately brings a barrier down.

He has been turned away from a few AGMs and it's always the difficult ones that turn you away - for example at Monsoon where someone was trying to buy them back on the cheap through a convoluted option scheme. The registrar would not let him into the meeting. Management literally hid behind the registrar. He learned from that so now he gets a "letter of representation" from his broker if he wants to attend a GM, but what happens if you want to go to a meeting at the last minute? You can't always get that letter in time.

But why should you need a letter? You own the shares so why should you need a letter from an intermediary confirming you own the shares? It's crazy.

SIPP providers in particular don't want to know in terms of the administration required. If it was made easy for small shareholders to vote, that potentially would make a major change to corporate governance. It would make the market a lot more attractive to new investors.

Mr Scott talked about some shareholder action groups he ran in 2001/2002, when there were a number of companies with bank balances more than double their market cap. But management did not want to give the money back to shareholders. He created web sites where shareholders could register their interest and he got up to 20% of shareholders registering and supporting his plan. But he then found that to actually do anything beyond that point was almost impossible. He wanted to call an EGM, for which 10% of votes was required, but people had to dematerialise their shares onto a certificate before they could sign the requisition. What he found was that the enthusiastic supporters then rapidly melted away. It meant their shares were in limbo for a couple of weeks and could not be sold in that time. So he had to rely on hot air and bluff instead. Shareholder activism is almost impossible under the nominee system.

Moving on to what he would like to see, the proposal from Michael Kempe for direct registration was music to his ears. That is direct registration so you can turn up at an AGM and your name is on the register. Mr Scott did not see the need for nominees at all.

Mr Scott talked further about the knock-on effect of the absentee ownership class. He pointed out that holders of CFDs and spread-bets are also excluded (he has held a large spread-bet for 8 years but with no voting rights attached of course). Put all that together and you can have 30, 40 or 50% of the shareholder base that never votes on anything. He believes the managerial class have latched onto this knowing full well that all they need to do is schmooze a few key institutions and everything and anything will go through on the nod at an AGM. That in turn has caused an escalation in executive remuneration to levels that are now frankly grotesque. He suggested most people would agree on that.

He suggested the proposed reforms would radically change that so he is a very strong supporter of bringing back shareholder democracy through direct votes.



### **Roger Lawson**

Note: Roger's powerpoint presentation is at the end of this report. Roger initially asked three questions of the audience - 1) Who thinks they own the companies that they invest in?; 2) Who thinks they should appoint the directors of the companies which they own? and 3) Who thinks they should determine the pay of the directors?

Most of the audience raised their hands to indicate they supported these concepts. But Roger pointed out that sometimes shareholder ownership is disputed, and certainly anyone holding shares via a nominee account is not legally the owner. He pointed out that unfortunately a lot of investors do not consider themselves as owners of the business but as an investors in a share price derivative.

He said that shareholders have been disenfranchised and their rights undermined by the widespread use of the nominee system. This has been happening for the last 15 years now, and it was not adopted as a matter of policy by the Government. It basically happened because it's in the interests of the intermediaries rather than investors. This is distorting shareholder democracy.

Roger mentioned recent problems he had experienced with the proxy system - such as turning up at the AGMs of Diageo and National Grid with proxy appointments from DSW (German Shareholder Association) and finding out the registrars had not received the proxy appointments - probably because the nominee operator had not submitted them in time.

This is a major problem in terms of cross-border European voting. But it also happens quite a lot in the UK. If you have ever been in a proxy battle, you will find that when you turn up on the day of the vote, many of the votes you expected in support are not there because either investors did not get their proxy appointments in on time, they did not realise they had to re-materialise their shares, or other reasons.

This has sometimes made it impossible to thwart management. For example at Lees Foods where there was an MBO of a listed company at a ridiculously cheap price. It could have been thwarted given sufficient time. But it went through because many shareholders did not vote.

The commercial interests of intermediaries have taken precedence over that of the investors. Sometimes when he hears nominee operators say pooled nominees are a wonderful system, they are dirt cheap, everybody likes them and they are easy to use people ignore that it is very much to the financial advantage of the nominee operators.

It also locks the clients into their system. Moving from one nominee operator to another in an absolute nightmare as he recently discovered when it took 5 months to move a SIPP account to another broker.

The other reason why nominee operators like the existing system relates to cash holdings. If you have a Personal Crest Account [or certificated holding], when a dividend is paid it is sent to you directly and goes into your bank account. For a nominee holding, the payment goes to the nominee operator. If you study the accounts of stockbrokers a lot of their profits come from the cash interest on their client funds. Most brokers now pay nothing to clients on their cash holdings. You can see why most brokers have a very strong interest in promoting the nominee system.

The problem was that when paper shares certificates became somewhat archaic (and he certainly would not recommend using them for security reasons), there was no new low cost system brought in. And most people don't realise the legal risks of nominee accounts. John Kay has read his contract with his nominee operator, but most people don't. There have been enormous problems in the past where brokers have gone bust. The biggest case was probably Lehman Bros. Sorting out who owns what in a nominee system can be enormously difficult. In the case of Pacific Continental, another broker who went bust, they had to go to the courts to figure out who should get what and it took years. It's just horrible! Lawyers recognise the problems of nominee systems - actually identifying the beneficial owners can be very difficult. If a broker goes bust, you will often find their systems were not as robust as you might have thought.

Roger highlighted the problem of shareholders in nominee accounts not voting. He showed the results of a survey of ShareSoc members which indicated that the vast majority of investors in nominee accounts do not vote their shares. This is because it is difficult in essence. There are a few brokers who provide electronic systems to make it easy to vote (he uses one), but most brokers do not provide such a system - you would have to write to them to spell out how you want to vote. It's just too much hassle. He admitted that he did not bother to vote some of his nominee holdings for that reason. So this is what needs changing.

Even though you nominally have the right to vote under the 2006 Companies Act, the brokers do not legally have to pass it on unless it is an ISA account. There is no legal obligation for a broker to pass on voting or information rights.

He pointed out that in 2025 share certificates will definitely disappear so something needs to be done to bring in a new system. ShareSoc does not want to rule out nominees but it has adopted a set of principles that they would like to see adopted - see the ppt slides below. That included a low cost system with everybody being on the register. Roger pointed out that he has worked in the IT sector and, like Paul Scott, could see no reason why everybody should not be on the register. It is not difficult to devise IT systems that support that principle.

Roger also suggested retail clients should be informed about the risks of nominee accounts. At the moment they are not. People get stuffed into nominee accounts because the brokers do not mention anything else. This is a big problem.

ShareSoc's view was that if you have a SIPP or ISA account you should be on the register, be able to vote, and be able to turn up at an AGM and be recognised as a shareholder. That requires Government action of course.

To restore shareholder democracy, who the shareholders are should be available to other people. Anyone can request a copy of a share register if you have a "proper purpose" but that does not get you very far in many companies. All you get is a list primarily consisting of nominee operators. If you send them a letter requesting they forward it via email to their clients, they don't - they throw it in the bin. The conclusion is that the Companies Act and associated regulations need updating.

Roger emphasised that the key point is that **EVERYONE SHOULD BE ON THE REGISTER**. It would not cost much, it should be a matter of course that everyone is on the register, whether they are in a nominee account, which some people might still prefer, or whether they are a direct holding.

It is not difficult to devise a better system than the use of nominee accounts - it's been done already -for example the Australian system works quite well. If you look at the USA, although they have a nominee system (the "street name" system), everyone gets a proxy voting form - they can all vote.

Roger spelled out that there are some things that the campaign will be asking people to do. One is to persuade politicians that something should be done about it. ShareSoc has produced a document (see [http://www.sharesoc.org/Guaranteed\\_Votes.pdf](http://www.sharesoc.org/Guaranteed_Votes.pdf)) to explain the issues because explaining them to politicians is not easy. Although civil servants at the BIS and Treasury may understand the issues, unless they get encouraged by politicians it may not be a priority for action.

Roger emphasised that this campaign will cost money (already £2,000 had been spent) and so a collection was taken from the audience (if you wish to make an on-line donation see <http://www.sharesoc.org/shareholder-rights.html>).

He also encouraged attendees to sign a petition which ShareSoc had created (see this web page: <http://www.sharesoc.org/sr-petition.html>).





## Questions & Answers

An attendee mentioned he had experienced problems tackling a Jersey registered company because shareholders were mainly in nominee accounts. He thought that new legislation on the disclosure of beneficial owners might help. But nobody is thinking about taking it down to the level of individual holdings. Roger Lawson said that legislation to disclose controlling stakes in terms of beneficial owners will not really help at all. ShareSoc did suggest it

be extended to all holders but that was not taken up.

Cas Sydorowitz pointed out that it is also possible to obtain a copy of the "808 register" (the list of beneficial owners disclosed to the company where they have asked for them), but it was pointed out this did not apply in Jersey. Roger Lawson also pointed out he has a standard "register request" template letter that includes that but in smaller companies you often find they have not asked anyone who their beneficial owners are.

A delegate asked Michael Kempe about his proposed new system. On the right of his slide, will it be the same as now? Why not work towards what Roger is suggesting with everyone one on the register. Mr Kempe said this is a question whether we want to change the Crest system and adopt more the Australian model. Mr Kempe said he could spend 5 hours talking about this, but they did spend a long time looking at the models of other countries. The Australian model does have some problems for example. He also said that many people like the existing nominee system -indeed some clients want to hide their identity and not be on the register. Therefore they took a decision of "one step at a time" so that there is a level playing field and you are given the choice how you hold your shares.

Mr Keynes raised the issue of whether SIPP and ISA holdings could be directly with the company rather than in nominees, which is one of the ShareSoc policies. Does this create difficulties or is this viable? Mr Kempe said that at a practical level, and from the registrars point of view it is viable, but he was not qualified regarding the Government's perspective on tax and control thereof. The regulatory element would need to be examined.

Kimberly Bingham from the BIS offered to say a few words. She said she was up to her neck in the issues that the ShareSoc campaign had flagged. They will certainly be looking carefully at the 7 principles that ShareSoc had set out. The Government understands that some shareholders will want to exercise rights irrespective of the ownership model they use. The law as it stands only goes so far in that regard. The Government is looking at how the model operates so they can scope the extent of whether wider reform is required or is desirable. They are commissioning qualitative research - an invitation to tender went out this morning looking at how the model operates. There are a number of voices in this area and those in Government want to understand all of the perspectives, and it has to be said "the vested interests". The bottom line is, regardless of Dematerialisation, they want to look at the nominee model and investor enfranchisement.

On dematerialisation, the Government is committed to finding a solution that gives investors choice about how they hold their shares. And this includes allowing them to hold them directly with the rights associated with that. But timing is an issue as we are approaching a general election so there will be momentum post election but also hopefully pre-election so we can get our ducks in a row for whoever comes into Government in 2015. It's going to take some work between now and then but they we want to do that in conjunction with the stakeholders. Ms Kimberley ended by saying she welcomed this campaign. She was applauded by the audience at that point.



Katherine Howarth from ShareAction said they were encouraging pension funds to use the shareholder rights they hold on behalf of beneficiaries and reiterated her support for the campaign agenda. She noted their win earlier in the year at Hargreaves Lansdown who were proposing to charge £10 for AGM attendance [and voting] but only today she had written to another company that charged £100. She hoped a more empowered retailer base would help to nudge institutional investors to be more active and show them up, when they are unwilling to engage and if necessary challenge companies. She said it was incredibly important that we get corporate governance and investor governance right. Roger Lawson pointed out that it was not just ShareAction who had pressured Hargreaves Lansdown on their charges - ShareSoc had also done that.

An attendee raised the issue of the 2025 deadline for dematerialisation. Could it not be done sooner? Roger Lawson said they would be pressing for quicker action, and joked that otherwise he would have to consult his doctor as to whether he could live that long.

Gillian Nott raised the issue of needing to encourage shareholders to take more interest in their shares. Enfranchisement might not stop the problem of the "absentee landlord" because it is a minority who vote their shares. It will require a great deal of work, by for example the companies who want to engage with their shareholders - they find it very difficult at present. They are almost worried about getting too many people onto their share register.

John Lee said that many people seemed to have an obsession with voting. What he is more interested in is the judgement one attempts to make about the quality of businesses and their future prospects. He is more interested in developing a real dialogue between boards and private investors. Mr Rentoul supported Lord Lee's comments and said improving information rights was important, particularly for AIM companies. He suggested there was no reason why the Government should not lay a statutory instrument tomorrow to extend Section 146 so that it would apply equally to AIM listed companies and he will be writing to the Government on this matter.

The meeting broke up at that point with speakers and delegates mixing over refreshments.

R.W.L. 17/10/2014 © ShareSoc

## Capita Asset Services

Outlining the shape of the de-materialised market

Michael Kempe



## Why are we discussing dematerialisation?

Dematerialisation is the biggest industry change for shareholders since CREST

It's not **"If?"** .....It is **"When?"** and **"How?"**

**"When?"** = The Central Securities Depositories Regulation formally entered into force on 18 September 2014

- Dematerialisation (All new accounts from 2023 and All securities by 2025)

**"How?"** = The current debate! With the right outcome dematerialisation increases shareholder choice and rights.

**It is essential that we work together**

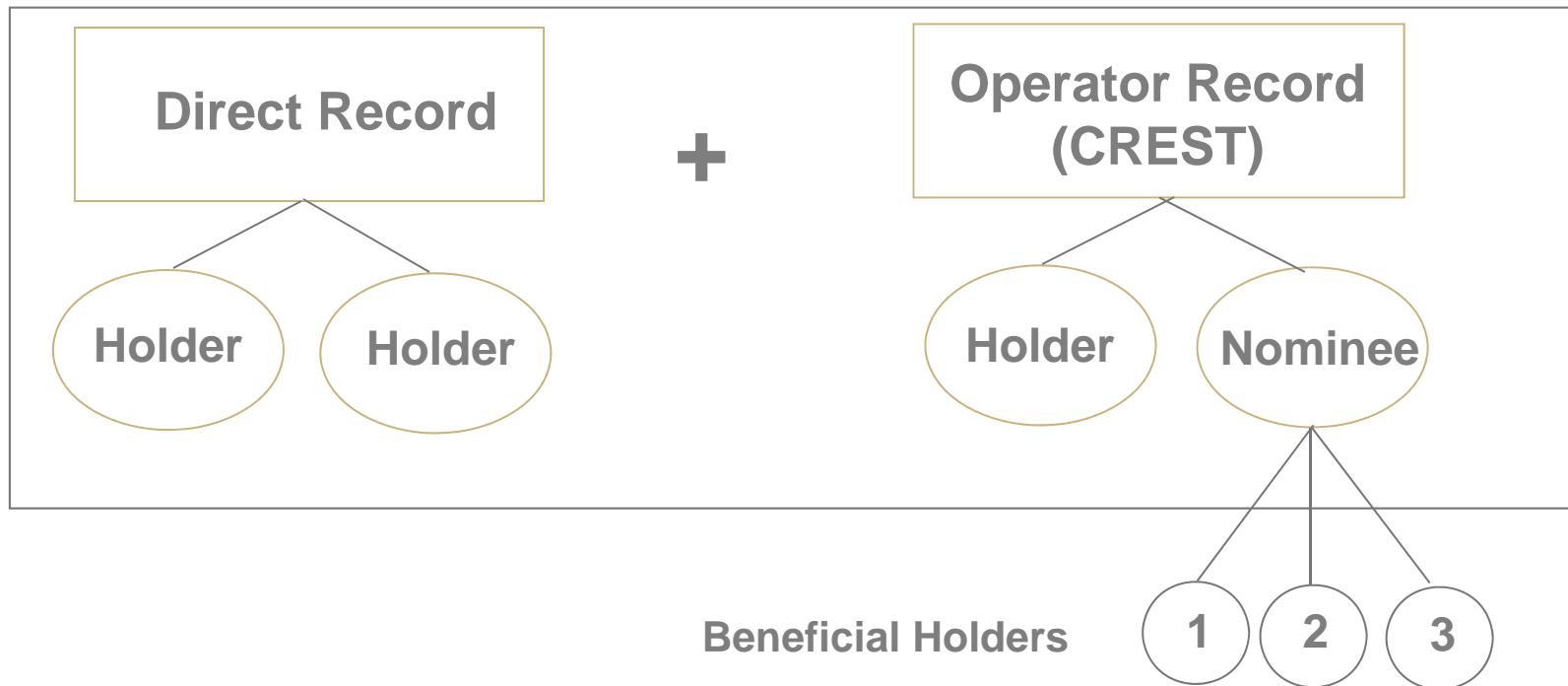
## Agreed Principles

- Registered shares
- Dematerialisation must produce benefits
- Any book entry model adopted must be the best for each market
- **Shareholder rights must be protected**
- Issuer rights must be protected
- The structure must be efficient
- Benefits must outweigh costs and costs should be apportioned in a fair and balanced way
- Logical and measured transition plan
- The market should consider all dematerialisation options, providing they meet the principles outlined

# CAPITA

No Change to the structure of registers but certificates are replaced by shareholder IDs

The Issuer's Register:



## Key points to note

- An industry wide model that protects the name on register concept is being sent to BIS for consideration.
  - Increased shareholder choice
  - Shorter trading times to bring retail in line with institutions
  - Nominee or direct holding becomes a true choice
  
- Two other models are being considered that would be less beneficial for individuals
  
- No decisions will be made until after the next election
  
- Certificates will be removed

**ShareSoc**

(UK Individual Shareholders Society)

**Shareholder Rights  
Seminar**

**Guaranteed Votes for All Shareholders**





# Agenda

**Stan Grierson**, Chairman of ShareSoc – *Welcome and opening remarks.*

**John Kay** - *The importance of private shareholders in equity markets today.*

**Michael Kempe**, Capita Asset Services – *Outlining the shape of the de-materialised market.*

**Peter Swabey**, ICSA – *Listed companies and their private shareholders.*

**John Lee**, – *Building bridges between the board and the private investor.*

**Cas Sydorowitz**, Georgeson Inc. – *How private shareholders can lose out in corporate actions.*

**Paul Scott** – *The view of the small cap investor.*

**Roger Lawson**, *Protecting the rights of private shareholders, and what needs to be done to restore shareholder democracy.*

**Questions and answers, followed by refreshments.**



# Guaranteed Votes for All Shareholders and How to Reform UK Share Ownership

**Roger Lawson**  
ShareSoc, Deputy Chairman

ShareSoc



# Questions to You?

- Who thinks they own the companies that they invest in?
- Who thinks they should appoint the directors of the companies which they own?
- Who thinks they should determine the pay of the directors?



# Summary

- Shareholders have been disenfranchised and their rights undermined by the widespread use of the nominee system.
- So individual investors now see stock market investment as speculation in a share price derivative rather than ownership of a share in a real business.
- This has destroyed shareholder democracy and means managers have taken control.



# Examples

- Defeated proxy voting at Diageo and National Grid.
- Makes it almost impossible to thwart major investors (often management) in small companies, e.g. delistings or takeover bids such as Lees Foods. Legal action is becoming exceedingly difficult even if one has the support of institutional investors.



# Why has this happened?

- Commercial interests of intermediaries have taken precedence over that of the investors.
- No widely available and low cost electronic system was introduced to replace paper share certificates, and brokers encourage the use of nominees.



# Legal risks

- Most investors do not own their shares. Their beneficial interest depends solely on their contract with their nominee operator (e.g. stockbroker). That is exceedingly dangerous in practice and creates great legal uncertainties!



# Rights and the 2006 Companies Act

- Although some beneficial owners do obtain some rights via their brokers, these are limited and in practice most investors do not and cannot use them.

## ShareSoc Member Survey of Voting of shares via a nominee

Answer	0%	100%	Number of Response(s)	Response Ratio
Always (or attempt to do so)			39	9.7 %
Often			16	3.9 %
Sometimes			49	12.2 %
Rarely			72	17.9 %
Never			168	41.8 %
No Response(s)			57	14.2 %
<b>Totals</b>			<b>401</b>	<b>100%</b>





# Dematerialisation and the CSDR

- The sooner the better and we should not have to wait until 2025 to fix such a defective system.



# 7 Principles

We need:

1. A modern, low cost electronic share registration system (name on register).
2. The above implemented quickly.
3. Retail clients must be informed about the risks of nominee accounts and offered an alternative.
4. Nominee accounts must provide all rights and make them easy to exercise, at nil cost.
5. Government action required to ensure SIPP and ISA accounts can be held directly (i.e. on the register).
6. All beneficial owners should be accessible to issuers and others, as for those on the register.
7. The Companies Act and associated Regulations need updating to reflect modern share trading usage (and AIM shares should not be exceptions).



**Everyone  
should be  
on the  
register!**



Conclusion: It's not difficult to devise a better shareholding system than the use of nominee accounts – it's been done already.



# What you can do

To help get something done:

- Persuade politicians.
- Support the campaign financially.
- Sign our petition.



# Questions

