

What is Personal Crest Membership?

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What is Personal Crest Membership and why should I use it are questions I am often asked. This article aims to supply the answers to those questions.

Personal Crest Membership is one of the three ways in which you can hold shares as a retail client of a UK based stockbroker. The three ways are in a nominee account, as a paper share certificate and as a Personal Crest Member. Very briefly these are the disadvantages of the first two methods (more information is given on these pages of the ShareSoc web site:

<http://www.sharesoc.org/basics.html> and <http://www.sharesoc.org/shareholder-rights.html>):

- Nominee accounts destroy the direct relationship that you have with the companies in which you have invested. They won't know who you are, and they won't recognise you as a shareholder because you are not on the share register of the company. Nominee accounts create potential legal problems as your stockbroker owns the shares you have purchased, not you. If they go bust you can have major difficulties recovering your assets.

- Paper share certificates cause problems in meeting the 2 day settlement times which now apply, are relatively insecure, and may easily get lost. The EU has mandated that they must be phased out by 2025.

Almost all listed UK company securities are now recorded and trades "cleared" within the Crest system, operated by Euroclear and have been since 2002. This is of course a highly secure electronic system so paper share certificates held by retail clients have to be "dematerialised" into electronic form whenever they are traded. Brokers who operate nominee accounts have electronic accounts within the Crest system and they interact with the Crest system directly.

A Personal Crest Member has a Crest account also, but in that case they have a stockbroker who acts as "Sponsor" and submits the required instructions to the Crest system. This is to a large extent an administrative convenience as retail clients might have difficulty operating such accounts directly, particularly when complex corporate actions need executing. But it also assists with security.

As far as the client is concerned a Personal Crest Account looks very similar to a nominee account. In other words, your broker will provide an electronic system that shows your holdings, and provide trading facilities, and shows your current cash holdings - a Personal Crest Member has a separate linked cash bank account to his Crest account to enable stock purchases to be paid for, and into which receipts from sales are paid. But there are two differences from nominee accounts, which are:

- Your name appears on the share register of the company after you have purchased a stock, and therefore your ownership of the shares cannot be disputed. More explanation of the advantages of this are given below.

- Any dividends on the stock are paid directly to you rather than to your stockbroker - either via a cheque sent to the address registered for you in Crest, or to your bank if you have recorded your bank details with the registrar. This is a major advantage because although stockbrokers used to pay significant interest on your personal cash holdings, now they generally do not. If it goes directly to you, then you can earn more interest on it.

The advantages of being on the share register of a company are:

- The company in which you hold shares will send you all corporate action notices directly, notices of General Meetings and a proxy voting form. You do not need to get a "Letter of Authority" from your stockbroker to attend an AGM or any other general meeting - indeed you can generally turn up at any such meeting and be recognised as a shareholder with voting rights as long as you can present some form of ID.
- You do not need to rely on your stockbroker to vote your shares (which even if you instruct them to do so, often gets lost), nor follow any special procedures. You will be sent a proxy voting form directly from the company's registrar which you can easily return in good time.
- The company will send you a paper Annual Report, or an electronic version, or you can opt in to pick them up from their web site. But you will definitely know when it is available.
- Being on the register means that you will receive communications about any special events such as takeover bids, rights issues, requisitioned resolutions, etc, directly from the company. You can also sign third party requisitions and have other rights that are not available if you are in a nominee account. Only certain rights can be passed on by a nominee operator.
- You will also be able to receive any communications from third parties who wish to discuss the affairs of the company with shareholders. Note: this does not mean you will be deluged with junk mail. This used to be somewhat of a problem before the "proper purpose" rule for access to share registers was introduced in 2006. Neither does it mean that your name and address being on the register is a security risk as it used to be with paper share certificates because the electronic Crest system is much more secure, only stockbrokers can enter transactions and they have a legal obligation to identify their clients ("KYC" checks). Having your name and address on a share register is no more risky than having it on the electoral roll or in the telephone directory.

In summary there are a number of advantages of Personal Crest Membership over the use of a Nominee Account, with no significant disadvantages. This writer would never wish to use a nominee account if he had any choice (unfortunately at present ISA and SIPP accounts need to be nominee ones). Note that sometimes cost is mentioned as a factor, but in reality some brokers do not charge extra for Personal Crest accounts, although some do make some additional small account charge which is not likely to be significant unless you have a very small portfolio. It does take a stockbroker a bit more work to open a Personal Crest account on your behalf, and it might add a delay of a week or two. For that and other reasons some brokers have been deterring the opening of new Personal Crest accounts, and many no longer offer them at all (the Wealth Management Association, WMA, have a web page that enables you to identify which brokers offer them). Charles Stanley Direct no longer seems to offer them and although Stocktrade do, they are being taken over by Alliance Trust Savings who do not so they might reconsider their support in due course. However Killik still offer them on advisory accounts. Otherwise you probably need to shop around to find a broker that will support Personal Crest accounts.

Note that one big advantage of a Personal Crest account is that it is very simple to transfer any holdings in such an account to another Crest account.

Other minor points to bear in mind:

- If you still have some paper share certificates it is simple for your stockbroker to dematerialise them into a holding within a Personal Crest account.

- Shares in companies traded on foreign exchanges and "funds" (Unit Trusts, OEICs, ETFs) can be held within a Personal Crest account with your stockbroker like any other holding, but they are then effectively in a nominee. The Crest system only applies to companies who are part of and registered within the Crest system. UK listed investment trusts are of course included in Crest so that's another good reason to use them rather than other collective funds.

- It is important to emphasise that operating a Personal Crest account is almost identical to operating a nominee account on the same brokers electronic platform. They will look after the administration for you in the same way - for example when taking up rights issues.

In summary Personal Crest accounts are an invaluable way to ensure your shares are held safely and that you will be recognised as a shareholder by the company. Don't miss out on this great facility when looking to open a new stockbroking account.

But be careful. Some brokers when you ask about Crest accounts suggest that their nominee accounts (which is all some of them offer and talk about) are Crest accounts. They may be using Crest underneath but you will not have a Crest account! You need a Personal Crest account.

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