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Sir Douglas Flint
Chair, Digitisation Taskforce
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Dear Sir Douglas,

Feedback on Digitisation Taskforce Interim Report

We appreciate the opportunity to provide feedback on the Digitisation Taskforce's Interim Report. Computershare supports the government's drive to abolish paper share certificates and, as a leading share registrar, we have been pushing for legislative changes in this area for many years. We also support calls to improve the rights and visibility of investors that hold their shares through intermediaries. Delivered effectively, such reforms should create greater transparency of share ownership, significantly improve communications between issuers and investors, and provide investors with greater access to exercise rights associated with share-ownership. The underlying driver for reform is to enhance the securities administration system to improve the attractiveness of UK capital markets and facilitate capital raising by UK plcs, and our feedback is focused on constructive recommendations to support this goal.

Overview

Whilst we welcome the efforts undertaken by the Taskforce, we have a number of over-arching concerns with the approach adopted by the report. We have outlined these concerns below in addition to detailing how the objectives set by government can, in our view, be achieved more effectively.

1. Insufficient information to facilitate informed decision-making

- The Interim Report provides insufficient information to facilitate informed decision-making.
  - It does not clearly state the future-state rights and obligations of key stakeholders i.e. issuers and their investors, to understand the ramifications of the recommended approach.
  - It does not present critical detail on mechanics for the new market model and transition strategy.
- There is no cost-benefit analysis of the impact of recommendations, in particular no evidence of net benefit to the market from the proposed approach to dematerialisation.

- While issuers may make modest savings on certificate issuance and register maintenance (through a reduction in shareholder numbers), there is considerable uncertainty regarding expectations to support Ultimate Beneficial Owners ("UBOs"), e.g. direct dividend payments, and to facilitate nominee services which may introduce new costs.
- Currently certificated holders are likely to face new costs from the appointment of a nominee and fees to access shareholder rights.

2. Loss of shareholder rights

> The recommended dematerialisation approach risks immediate and long-term detriment to ownership and shareholder rights.

> Currently-certificated shareholders would lose:
  - the ability to engage in certain capital raisings (contrary to the goal of improving retail investor participation, as identified in the Austin Report);
  - the direct right to vote and exercise other rights vis-à-vis the issuer, potentially being required instead to pay an intermediary to access such rights; and,
  - their direct ownership of shares, exposing them to new risk of intermediary failure.

> A significant number of shareholders will be affected by these lost rights – estimated at 8.5m – 10m shareholdings. Despite claims that a large proportion of these shareholders are 'lost' or deceased, analysis of our FTSE 350 clients shows that on average at least 83% of shareholders remain actively engaged e.g. by voting, cashing dividends etc. A further 9% are less active but only 8% were identified as lost or deceased.

> The number of registered shareholders has remained largely consistent for years, even as individual shareholders have moved off and onto share registers; demonstrating that they are not all 'legacy' shareholders from decades-past privatisations.

3. Uncertainty over issuer responsibilities to UBOs

> The report creates considerable uncertainty regarding expected future issuer responsibilities directly to UBOs. This includes:
  - Expectations that issuers may be required to facilitate nominee services for formerly certificated investors.
  - The nature of such services, the rights to be offered to **all** UBOs, and who pays.
  - Direct digital payments to **all** UBOs.
  - Two-way communications between issuers and **all** UBOs.

> Without detail on such expectations, issuers cannot properly assess the cost-benefit impact of the overall recommendations for them and may face unexpected new costs.

4. Disruption to UK plc access to international capital

- While not specifically addressed in the report, the logical consequences of requiring all UK plc shares to be held in nominee accounts in CREST will be highly disruptive in relation to access to international capital markets, and the ability of international retail shareholders to directly invest in UK plcs.
- It will reduce issuer flexibility in how they access international markets and may result in some issuers not being able to continue their current international listing structures.
- This will be detrimental to the international reach of UK plcs and to the openness of the UK market, potentially impacting competitiveness.

5. Digital register - A cost-effective and swift solution to dematerialisation

(detailed in Appendix 1)

- The digital register is a less costly, quicker to implement solution to dematerialisation that will support the flexibility and openness of the UK market.
- All UK plc shares are already recorded digitally on share registers. By removing the requirement for the paper share certificate as evidence of title, that existing digital register can cost-effectively deliver the benefits of digitisation to shareholders and issuers as well as enhance market efficiency:
    - Shareholders will retain direct ownership and access to shareholder rights.
    - Better digital services will be available to issuers and their shareholders, reducing costs for issuers.
    - The registrar-CREST interface can be significantly enhanced, with the removal of the CREST Counter and paper requirements and minor changes to systems and processes, to allow frictionless movement of shares between the issuer and CREST components of the Register of Members.
- The digital register is also an internationally-proven solution to dematerialisation in major markets, including the US (a market that is continuing to attract international listings in part due to its openness). It supports openness, flexibility and efficiency, and the interconnectivity of international markets.
- By contrast, the nominee approach mirrors the centralised structures of many European markets, which restricts issuers efficiently accessing international capital markets.
- The report summarily dismisses the digital approach without assessment of its benefits as outlined above.

Critical Considerations

The drivers for reform are clear however there are competing dynamics:

- Certificated holders have strong ownership and shareholder rights but face longer transaction times and higher costs – friction driven almost exclusively by the need to handle the paper certificate.
- Intermediated investors can trade securities quickly and seamlessly but have a weaker form of ownership and access to shareholder rights.

While digitisation can be utilised to address both problem statements, given their differing drivers it is not at all clear that one solution can be applied to resolve both. Unfortunately, this is the approach that is now being recommended, without accommodating the underlying differences.

These issues are complex. Conflating these matters risks creating unexpected and detrimental consequences for the UK market:

- We anticipate that the nominee model will create a significant number of flow-on effects that would need to be addressed, either by additional legislation or other action, including substantive market process changes.
- Progressing legislative action in accordance with the recommendations, absent informed analysis and decision-making, comes with risks:
    - Placing the UK in a poorly defined project that drains resources and wastes opportunities like the recent CHESS Replacement project in Australia.
    - Reducing the openness and flexibility of the UK market, contradicting the core goals of improving the attractiveness of UK capital markets and enhancing retail investor access to UK plc capital raisings.

We have provided further detail in this submission across two sections. In section 1 of our response, we provide comments on key principles with respect to dematerialisation and the position of intermediated investors, as well as our detailed comments on the Interim Report draft recommendations. In section 2 we respond to the specific questions set out by the Taskforce. As mentioned, in Appendix 1 we provide more detail on the digital register solution.

Stakeholder Engagement

We have engaged extensively with our issuer clients since the release of the report, noting that its timing has limited the opportunity for many to fully digest the proposals and respond directly. As with any complex change of this nature, there are a range of views. However, there is a lack of understanding of the impact on them resulting from the lack of detail in the report. Issuers are, generally speaking, worried about the potential for a costly transition to the recommended nominee model, as well as the impact on directly registered shareholders and their future responsibilities in relation to UBOs. We have had strong

support from issuers with whom we have had more detailed conversations for the preservation of an option for shareholders to hold shares directly, in fully digitised form.

We have also sought to engage with individual investors via representative groups and directly. We do not believe this impacted group has been sufficiently engaged by the Taskforce in forming the recommended approach. Currently-certificated shareholders are concerned about giving up their direct legal ownership of shares to an intermediary, and potentially having to pay an intermediary for the privilege of accessing their ownership rights in future. Those holding via nominees today appear to be expecting their existing commercial arrangements with intermediaries to be enhanced through legislative change to establish rights equivalent to those of registered shareholders. There is no universal agreement, however, on who should pay for the provision of such shareholder rights for UBOs. Neither group of investors is getting what they want from the proposed reforms.

It is important to note that digitisation solutions can be introduced to solve the challenges that each segment of individual investors faces, without first having to force all investors to hold via intermediaries. Computershare is committed to delivering such solutions if the legislative requirement to rely on paper documents can be removed.

Conclusion

We trust that the elaboration of our concerns on the impact of the draft recommendations provides constructive input to the Taskforce's continuing deliberations. We have sought to detail the specific effects of the proposals and address internationally-proven, robust alternatives to dematerialisation that can deliver on the government's stated objectives by driving real market efficiencies and improvements while minimising disruption, cost and detrimental impact on issuers, intermediaries and investors. We remain committed to continuing our open engagement with the Taskforce, government and various industry stakeholders to jointly drive solutions (in particular to determine appropriate solutions to effectively enfranchise UBOs that currently hold via nominees) to protect and enhance the efficiency and attractiveness of UK capital markets.

It is critical that this next step in the Taskforce's work focuses on detailed examination of the alternative models identified in the report to support impact assessment and a cost/benefit analysis. Insufficient information is provided in the report to support an informed understanding of the proposed recommendations. Details of the alternative models for dematerialisation; clarification of the expected issuer obligations with respect to the proposals relating to UBOs; and an assessment of how each proposal measures against the government's guiding principles, including evidence of net benefit, must be established before deciding on the preferred path forward. This process needs to be open, engaging a cross section of interests, and transparent.

If you have any questions in connection with our response, please contact Michael Sansom (Michael.Sansom@computershare.co.uk) or Claire Corney (Claire.Corney@computershare.com).

Yours sincerely,

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About Us

Computershare (ASX: CPU) is a global market leader in transfer agency and share registration, employee equity plans, mortgage servicing, proxy solicitation and stakeholder communications. We also specialise in corporate trust and a range of other diversified financial and governance services.

Founded in 1978, Computershare is renowned for its expertise in high integrity data management, high volume transaction processing and reconciliations, payments and stakeholder engagement. Many of the world's leading organisations use us to streamline and maximise the value of relationships with their investors, employees, creditors and customers.

Computershare is represented in all major financial markets and has over 14,000 employees worldwide.

Section 1: Key Principles and Recommendations of the Interim Report

In this section we provide some high-level views on dematerialisation and the position of intermediated investors, and more specific feedback on each of the recommendations made within the Interim Report.

Dematerialisation

An estimated **8.5m – 10m certificated shareholdings**[1] will be affected by the abolition of share certificates. The government appropriately highlighted in its principles to guide the work of the Taskforce that the approach to digitisation should:

- Not result in the degradation of the rights of current holders of paper certificates e.g. to vote.
- Provide net benefits, supported by evidence.
- Include a logical and measured transition plan that minimises disruption and costs for issuers, intermediaries and investors.

The report regrettably does not deliver on these principles:

- In progressing the mandatory nominee model, it would forcibly remove certificated shareholders' direct property ownership and access to shareholder rights such as voting.
- It does not communicate any evidence with respect to net benefits of the proposals.
- It creates considerable uncertainty regarding expectations on issuers to operate a corporate sponsored nominee, and the impact on shareholders that do not or cannot appoint a commercial nominee e.g. forced sale of their shares.
- We are concerned that mandatory centralisation of all securities into CREST would be detrimental to the highly-regarded international reach of UK plcs and unnecessarily complicate their engagement with other international markets and access to international capital. This would reduce the flexibility and openness of the UK market structure, as detailed further in our response to Q5 below.
- The only transition plan offered, ceasing issuance of certificates prior to implementing full dematerialisation, would cause significant market confusion and detriment to shareholders, particularly to participation in future capital events.

Yet the UK already has a simple, comparatively low cost and minimally disruptive solution to deliver full dematerialisation, while preserving all property ownership and shareholder rights for those 8.5m – 10m holdings. **All listed company share registers are already fully**

[1] While this estimate refers to shareholdings not holders, our research indicates that the vast majority of certificated holders are invested in only one company. As a result, there remain several million currently-certificated shareholders in UK plcs.

digitised. This applies to both the CREST component and the directly registered individual investor component of the Register[2] of members.

Paper share certificates are *prima facie* evidence of title for the directly registered individuals, required by current law, but the holdings are in fact digitally recorded. Removing the requirement for paper certificates would allow the existing digital register, with appropriate controls, to be utilised to support full dematerialisation. This approach is supported by international experience, having been established in numerous major markets (including US, Canada, Australia) over the past 20+ years; and with markets such as Hong Kong and Ireland currently moving to implement this model also. The Taskforce dismisses this approach without apparent analysis of the evidence. We have provided an overview of the digital register model, how it could be implemented in the UK and its benefits in Appendix 1.

Depriving shareholders of their property rights is a major step that should be thoroughly considered by government from a human rights and UK common law perspective before any further action is taken. The onus must be on the Taskforce, in the first instance, and the government to undertake this analysis and present compelling evidence that mandatory transfer of shareholder property to intermediaries or enforced forfeiture arrangements does not damage the rights of affected shareholders.

We note that the report also considered model 2, where shareholders could become direct members of CREST and retain legal title whilst holding in the CSD. A variant of this model is common in Nordic markets. The Australian and French CSDs also provide this form of account structure at the CSD, but do not mandate that all securities be held at the CSD. Although this preserves shareholders' ability to choose direct ownership, it would still force all investors to use an intermediary to administer their ownership position, creating new costs and legal requirements for them and requiring a complex transitional process for issuers and shareholders.

While EUI currently allows for CREST personal membership, there is little investor participation and many CREST participants do not support the option. The fees charged by those participants that do offer personal membership are likely to be prohibitive to retail investors.

The Taskforce report considered and rejected this option, given the limitations of the current CREST services. We agree that it is not a viable solution, including for that reason. However, there is a more fundamental concern that this model still forces investors to appoint an intermediary to be able to hold shares. This model would also not address the broader limitations on UK plcs that arise from forcing all shares into CREST (nominee or directly registered accounts), including issuer access to international markets.

Intermediated Investors

There are various intermediary service offerings available to investors, often at a cost, which in some instances include services to facilitate access to shareholder rights such as

[2] Section 113 Companies Act 2006

voting or the ability to participate in elective corporate actions. Access to such services is often encumbered by time-consuming processes under current market arrangements and law. We therefore support the government's guiding principle that:

> *Ultimate investors who hold shares with intermediaries should be able to effectively and efficiently exercise the rights associated with direct share ownership including voting, receiving information and other corporate actions. The ability to exercise such rights as a default should be universal, irrespective of the intermediary that an investor uses.*

We query how effectively the draft recommendation that intermediaries be transparent with respect to their service offering and associated fees delivers on this principle of universal ability to exercise rights. Informed stakeholder discussion on the appropriate policy and commercial balance of how to make rights available to all intermediated investors is necessary, for example whether all intermediaries should be required to make access to rights available to all clients, at disclosed costs. Clarity on the requirements to be placed on issuers with respect to intermediated investors is critical, considering various comments in the report suggesting an expectation of a more direct connection.

Comments on Recommendations

1. Legislation should be brought forward, and company articles of association changed, as soon as practicable to stop the issuance of new paper share certificates.

While we fully support the goal of full dematerialisation and eradicating paper certificates, we are very concerned with any action to stop issuance of new certificates prior to resolution, and implementation, of the over-arching full dematerialisation model. Such action will generate significant confusion, complexity and disadvantage for existing registered shareholders and likely create alternative costs for issuers, including considerations such as:

- Likely disadvantaging shareholder participation in issuances for their investee companies, including Rights Issues, dividend reinvestment plans (DRP) or other new share issuances.
    - While the report recommends that issuers may take powers to default affected shareholders within DRP programs to cash, this would deprive them of the shares they have in fact elected to obtain by participation in the DRP and effectively void the option of DRP for all registered shareholders.
    - The alternative would be to issue future share allotments into a nominee account (commercial or corporate sponsored). However, this would result in split holdings, potentially impacting future entitlement calculations and creating additional complexities for shareholder access/maintenance and any subsequent disposition arrangements.
- Impacting shareholders that sell only part of an existing holding, where a new certificate for the remaining shares must be issued.

- Unnecessary cost and complexity for the issuer in managing such positions, which may not be compensated by costs saved from certificate issuance.
- Creating overall complexity for the market in running dual systems and processes pending the full removal of certificates.

Ceasing issuance of certificates should be coordinated with the move to an agreed full dematerialisation model.

2. The government should bring forward legislation to require dematerialisation of all share certificates at a future date, to be determined as soon as possible.

We support the introduction of legislation to require full dematerialisation as soon as possible. However, we have significant concerns with the Taskforce's preferred approach for this, which we detail below. We note the Interim Report considers two viable approaches for full digitisation, including a digital version of the current system retaining the option for investors to be directly registered. We strongly urge further cost/benefit analysis of these two approaches with regard to the impact on shareholders and issuers, including consideration of the impact on property and shareholder rights for currently-certificated holders and clarity on any obligations issuers may have to UBOs holding via nominees, prior to finalising the approach and progressing legislation. The report specifies that (alongside issuers) investor views and interests will be given precedence, and we are concerned over the absence of an active campaign to inform this population of the recommendations.

3. The government should consult with issuer and investor representatives on the preferred approach to 'residual' paper share interests and whether a time limit should be imposed for the identification of untraced Ultimate Beneficial Owners (UBOs).

We agree that government should consult with issuers and investors on this point. Analysis of data from Computershare's FTSE 350 clients shows that, on average, 8% of certificated shareholders could be considered formally lost, where the issuer is aware of an event such as being notified that the shareholder has left their registered address, died, or has not cashed dividends for a significant period. By contrast, 83% of shareholders exhibit evidence of being actively engaged in relation to their shares by virtue of voting at general meetings, cashing dividend cheques, participating in reinvestment schemes, or receiving electronic payments or email communications.

The relatively small remaining balance of the shareholders on the registers contained within our FTSE 350 sample (9%), are relatively inactive regarding their shares and may, potentially, be considered unresponsive (e.g., they have not lodged a proxy vote, cashed a dividend, or registered an active email address within a certain period). There may be valid reasons for such inactivity, e.g. if the issuer does not pay a dividend or if the payment value is so low that the holder does not take steps to deposit cheques.

However, this data suggests that the prevalence of unresponsive registered shareholders is not unduly significant across the market, albeit that specific issuers may have a greater level depending on the historic attributes of their register formation. However, dematerialisation communications can serve an ancillary purpose of seeking to re-

engage and affirm the status of the unresponsive holders, and many issuers already undertake campaigns to 'reunite' unresponsive holders with their assets. Our comments below detail our view on handling remaining unresponsive shareholders.

4. Intermediaries should have an obligation, as a condition of participation in the clearing and settlement system, to put in place common technology that enables them to respond to UBO requests from issuers within a very short timeframe.

We agree that intermediaries should be required to facilitate disclosure requests digitally and in a timely manner. Various market-driven services to achieve this are already available. However, this should not be limited to CREST participants.

Issuers' rights under s.793 Companies Act 2006 to disclosure of their beneficial owners extend throughout the ownership chain. The obligation on intermediaries to facilitate digital disclosure of interests should likewise extend through to the last intermediary acting on behalf of the UBO, and that party may not be a CREST participant or even located in the UK. Experience in implementing the SRDII requirements, while not yet perfected, nonetheless shows that market providers can develop cross-border solutions to deliver this effectively.

We are concerned that the report appears to refer to this digitised disclosure process as something separate from the issuer's rights under s.793 and urge clarity on this point. This should also address any expectations as to whether issuers will be obliged to utilise the proposed facility; and whether any further obligations such as to facilitate communications and voting, process corporate actions and capital raisings are anticipated.

5. Intermediaries offering shareholder services should be fully transparent about whether and the extent to which clients can access their rights as shareholders, as well as any charges imposed for that service.

We agree that intermediaries should be transparent regarding their service offering to investor clients, including with respect to any fees.

6. Where intermediaries offer access to shareholder rights, the baseline service should facilitate the ability to vote, with confirmation that the vote has been recorded, and provide an efficient and reliable two-way communication and messaging channel, through intermediaries, between the issuer and the UBOs.

We query whether this recommendation effectively delivers on the government's call for universal access. We also query what is intended by a two-way communication and messaging channel between investors and issuers, and what obligations are expected of issuers in this regard. Further discussion and consideration of the detail of this aspect is essential.

7. Following digitisation of certificated shareholdings the industry should move, with legislative support, to discontinue cheque payments and mandate direct payment to the UBO's nominated bank account.

We support moves to discontinue cheque payments and mandate electronic payments. However, we are very concerned with any proposal to impose obligations on issuers to directly service intermediated investors, such as mandating that issuers pay all UBOs directly. Further impact analysis of this proposal is essential before the recommendation is further considered. The proposal as currently drafted would be unduly burdensome and costly for issuers, increasing calculation and payment process requirements compared to current arrangements and the risk of error and reconciliation problems. In our view, it would equally pose considerable logistical, risk and integrity concerns for intermediaries.

Such action presupposes that issuers have timely, granular disclosure of 100% of all intermediated holdings, in order to calculate and remit payment entitlements after record date, and processes to receive, record and update banking information. Nominee holdings are usually pooled, representing multiple underlying investors. Issuers would be required to reconcile the individual disclosed positions to the nominee position and implement a method for resolving differences in balances, disputes and errors. Differences can arise from intermediary record-keeping processes, market claim processes for settling transactions, possible collateral and lending impacts etc.

Such considerations are likely to be equally concerning for intermediaries. In our view, the policy goal of efficient, **digital payments can be better delivered by requiring all issuers to pay nominees electronically via CREST**, allowing intermediaries to continue to administer their client payment preferences per their contractual arrangements. Similar mechanics need to be considered for all forms of corporate actions, including access to AGMs, participation in capital-raisings etc., to clarify the rights and obligations of UBOs and issuers.

More broadly, the Taskforce should clarify its position on issuer obligations to intermediated investors.

Section 2: Interim Report Questions

Q1.	What would be an appropriate timeline to require all share certificates to be dematerialised to ensure that the communication arrangements necessary to allow previously certificated shareholders to have access to their rights are in place?

We contest the ability of stakeholders to effectively respond to this question, given the lack of detail on the proposals. Our response is based on stated operating assumptions, drawn from experience in operating with direct registration and intermediated systems internationally. We also wish to highlight at the outset that regardless of the time period, **dematerialising via mandatory intermediation will not in fact ensure that previously certificated holders have access to their rights**.

If the mandatory intermediation approach is adopted, based on our experience we estimate a period of 24-36 months from implementation of necessary legislation will be required to fully dematerialise, given the scale of the logistical effort needed.

Presuming effective government legislation (which is likely to be extensive and time-consuming) to mandate this outcome, the actions required to give effect to this transition include (without being limited to):

- An unprecedented mobilisation campaign to explain the change to all shareholders of the 8.5m – 10m affected shareholdings, and to encourage action.
- Each shareholder to appoint a nominee and complete all account opening processes and share transfer requirements, including locating associated share certificates and arranging indemnification for any that are missing.
- Issuers to undertake a full transformation of their register of members, administering the transfer of ownership from each shareholder to their individually-appointed nominee. In our experience, the cost of this will be significant, particularly for issuers with larger shareholder bases.
- Clarity of the "default" arrangements in relation to shareholders who do not or cannot appoint a nominee.
- If issuers are expected/required to operate a corporate sponsored nominee (whether for a short period to facilitate transition into the intermediated arrangement, or for a longer term) they will incur additional transitional and ongoing costs. If a single central nominee is adopted, questions around operation and determination of who covers the cost of the service need to be clarified.
    - In either case, the investor account-opening and transfer processes would remain the same as for commercial nominees.
- A complex conversion process coordinated between issuers, registrars, shareholders, their selected intermediaries and EUI, to move securities to the new CSD accounts.

Not all shareholders may be able to appoint a nominee. Some will be inhibited by the cost, particularly for small holdings. Those resident in certain overseas jurisdictions (across our FTSE 350 clients this represents approximately 20% of certificated shareholders) may face regulatory barriers to obtaining such services, which do not exist when holding shares directly on the register. Use of an interim – or even longer term – corporate sponsored nominee for such investors (where the issuer pays for the nominee services rather than the investor) would add to the organisational arrangements and issuer costs without necessarily resolving all regulatory barriers to investor participation. It fundamentally changes the regulatory profile of servicing shareholders to a regulated service with attendant regulatory oversight and overheads.

By contrast, **if the digital register model that we detail in Appendix 1 is adopted, our experience indicates that conversion to full dematerialisation can be effected within 12-18 months from passage of the appropriate supporting legislation**. This should include facilitative legislation authorising issuers to cancel certificates without recall[3] and without requiring shareholder approval. Certain enabling provisions for dematerialisation are already present in the Companies Act 2006[4]. This approach will ensure full retention of direct shareholder rights for the formerly certificated shareholders, without additional associated risks or costs. A 'big bang' approach is feasible considering the limited action required of shareholders.

The steps required to give effect to this quicker outcome include:

- a coordinated market-wide communication campaign for shareholders.
- updating related market processes to remove requirements to deliver certificates and institute alternate security protocols to confirm shareholder identity (e.g. for off-market transfers), with minor updates to the registrar interface to CREST to reflect removal of paper requirements.
- insofar as possible, implementing best practice standards to streamline common shareholder requirements such as digital identity or other means to create digital holder records.

As part of the transition, e-communications details should be solicited to enhance future efficiency of communications. This would support a move to making digital delivery the default option for shareholder communications.

The Republic of Ireland was recently able to agree and establish a system for full dematerialisation within the course of approximately one year, adopting this approach.

[3] For example, the Australian market successfully converted to full dematerialisation without requiring certificates to be recalled, via a comprehensive market communication programme. This approach is also consistent with UK market practice for major capital transformations, where certificates are not recalled. As there is no transfer of ownership of the relevant securities and certificates would no longer constitute evidence of title, this is a low-risk approach. By contrast, imposition of a mandatory nominee requires delivery of the paper certificate to support and affirm the transfer process and to minimise risk associated with the change of legal title.

[4] Part 21 Chapter 2 (Sections 783-790).

Q2.	What approach should be taken to the disposition of 'residual' paper shares, and should a time limit be imposed for identifying untraced UBOs?

We understand this question to relate to an expected requirement to manage the position of unresponsive shareholders, some period after dematerialisation is implemented. It presupposes adoption of mandatory intermediation, where shareholders must take positive action to appoint a nominee and unresponsive shareholders cannot continue to hold their positions on the share register pending reunification of the shareholder with their assets or other action being taken.

As indicated in the data we shared in response to Recommendation 3, the prevalence of unresponsive shareholders is not highly significant across the market. We note that this data relates to registered (certificated) shareholders and does not include investors holding through a company sponsored nominee, that may currently be offered by the issuer. Investors holding via a company sponsored nominee are already intermediated and, as we understand it, would not be affected directly by the dematerialisation proposals.

The Taskforce outlines options for handling unresponsive shareholders. These all require effective divestment of the shareholder, either by forced sale or transfer of ownership. Transfer of ownership of shares to a nominee cannot occur without shareholder consent and KYC, in the absence of further legislative action to remove or waive the existing regulatory protections for shareholders in this regard. Such considerations require engagement with both the affected class of shareholders and issuers, along with government, to agree the appropriate balance of risk of disenfranchisement to investors versus cost to issuers, and further supportive legislation.

Implementation of the digital register model would not be hindered by the existence of unresponsive shareholders, and issuers could therefore continue to exercise their existing preferred policy and strategy for managing them.

Q3.	With regard to 'residual' certificated shareholdings attributable to uncontactable shareholders, do you support each issuer having the option to manage these residual interests themselves within the authority contained within their articles of association as well as having the option to transfer the proceeds of sale to the UK's Dormant Assets Scheme?

Issuers should continue to have discretion in how they act with respect to unresponsive holders.

Q4.	Is the ability to have digitised shareholdings held on a register outside the CSD important to issuers or UBOs?

We have engaged extensively with our share registry clients since release of the Interim Report. The majority have expressed support for the continued option for their shareholders to hold in directly registered form outside CSD accounts. We are aware that a number of issuers and their representative bodies are intending to respond to the Taskforce directly however and we are keen to understand these views to aid our further analysis.

We engage with the affected group of shareholders on a regular basis. In our experience the ability to directly own their shares and not to be required to use an intermediary simply to hold shares is highly valued. While in past decades, shareholders may have felt they had little option other than paper certificates due to how they acquired their shares, those we engage with now more actively choose to be registered. The consistent numbers of shareholders overall in recent years, despite individuals entering and exiting registers, and the fact that shareholders continue to withdraw from CREST onto the register (despite increased challenges and cost of facilitating this arrangement on the part of brokers) demonstrates that investor choice for directly-registered positions continues to be highly valued. Across our clients an estimated 10,000 holdings were withdrawn from CREST and directly registered over a 12-month period.

We encourage the Taskforce to actively engage with directly registered (certificated) shareholders to obtain their feedback on this point. We suggest that it is unlikely that many individual shareholders will have awareness of the government's formation of this Taskforce or of the issuance of the Interim Report, however their direct participation is critical given the potential impact on their property and shareholder rights. Engagement with the retail shareholder associations will also provide insight into a collective view.

Direct registration means legal ownership of shares in the company and conveys specific, centuries-old, property rights under common law and legislation, including:

- Legal ownership of the shares as an asset, without risk of loss due to failure of an intermediary.
- Ability to self-service shareholdings, unencumbered by any frictional intermediation impacts.
- No costs simply to hold their shares or to access and exercise the associated rights of ownership.
- Direct engagement with the issuer.
- Access to all incidences of share ownership including voting, participation in corporate actions, and attending shareholder meetings.
- Direct receipt of company information.
- Freedom to use their broker of choice for transactional activity.

This is a feature of UK law and our market structure that should be protected and enhanced, not diminished. It should be noted that shareholders already have the option of moving to a nominee of choice, yet significant numbers have chosen not to do so.

International Evidence of Continued Choice for Direct Registration

Computershare provides share registry services in most leading international markets. Many of these markets have similar share registration structures to the UK, including the US, Australia, Canada, Republic of Ireland and Hong Kong. Each offers the option of directly registered holdings outside the CSD to shareholders. Australia, the US and Canada already operate systems analogous to the digital register. Australia is fully dematerialised, with shareholders having the option to hold in digital form either outside the CSD or through CSD accounts.

These markets share a common legal heritage with the UK, and a dynamic, open market structure focused on attracting international capital. By contrast, fully centralised ownership via the CSD is more commonly seen in European countries and can reduce flexibility for issuers to engage with international capital.

Analysis of Computershare clients show withdrawals of shares from CSD accounts into digitally registered direct shareholdings:

- US: 150,000+ holdings were withdrawn from DTCC over a 12-month period.
- Australia: 71,000+ holdings were withdrawn from CHESS over a 12-month period.
- Canada: 7,000+ withdrawals from CDS over a 6-month period.

In the US, across the market for all issuers (including Computershare's clients and those of other transfer agents) DTCC has indicated that over 290,000 holdings were withdrawn over a 12-month period.

While these numbers vary between markets based on scale, they show the continuing choice exercised by shareholders to hold in their own name, in dematerialised form. It is evident that shareholders continue to value this option, and this also suggests that UK shareholders have chosen direct registration for its benefits, not simply to be able to hold in paper form.

Q5.	Do you agree with the taskforce recommendation that the optimal architecture is for all digitised shareholdings to be recorded in the CSD and managed and administered through nominees?

We do not agree with the Taskforce's recommendation. Replacement of direct legal title and associated rights with optional and variable intermediated service arrangements is a highly suboptimal outcome for shareholders. Implementing mandatory centralisation into CREST would remove investor choice while imposing new frictions, costs and legal requirements on shareholders. It would also require a complex and costly transition process for issuers. No evidence has been provided to establish the net benefits of this approach.

We anticipate that extensive legislative and other action would be necessary to remove investors' existing ownership and shareholder rights, and to address various ancillary consequences of this approach (see further below). We question the basis for such a drastic

action and urge further analysis of material evidence to establish a cost/benefit basis for informed stakeholder choice on whether to progress with model 1 or model 3, which should drive the Taskforce's final recommendation.

Provision of nominee services is a regulated activity due to the custodial relationship, imposing compliance requirements between nominee and investor, and create additional costs such as regulatory levies, capital adequacy requirements and custody services. While some nominees may waive account-keeping fees based on investor profiles, this is not universal and nominee accounts typically trigger investor cost. Additionally, current shareholders would face a new risk to their assets in the event of intermediary failure.

Not all shareholders may be able to appoint a nominee due to cost barriers; regulatory limitations based on residency; or because their holding is too small for a broker to want to offer services. We are aware from stakeholders that many nominees are reluctant to service this shareholder population. The report is unclear on how such investors should be treated. There is consideration of requiring all issuers to offer a corporate sponsored nominee, at least as an interim step, which adds to issuers' shareholder servicing costs. Mention of a centralised nominee is not detailed, including the essential 'who pays' debate. There is no clarity on handling shareholders that cannot access a nominee at all, e.g. due to residency restrictions; those that do not complete account-opening forms (required for shareholder protection); or those that after some (to be defined) interim period remain in the corporate sponsored nominee after the interim period. Will the Taskforce expect issuers to sell out those shareholders, and under what authority?

International Impact

A further element that should be considered is UK plc access to international investors and capital markets. Many UK plcs have a well-reputed international presence, with significant international investor participation on their UK share registers. UK plcs often also list in international markets, reflecting for example historic international relationships, commercial interests and supporting global employee bases. This internationalisation of UK plcs benefits the UK economy, including strengthening the position of UK businesses against their international competitors.

As already discussed, non-UK resident retail investors may struggle to appoint a nominee and may not be eligible for company sponsored nominees due to regulatory restrictions. Direct registration may in effect be their only option for continued investment in UK plcs.

UK plcs listed internationally use various arrangements to support shareholders in the foreign market, including overseas branch registers in markets such as Canada, South Africa, Hong Kong, Australia and New Zealand. Branch registers provide the option of direct registration in the foreign market and, critically, facilitate connectivity with the foreign CSD to support market trading and settlement.

A number of UK plcs have a primary listing of Ordinary Shares in the United States, supported (as required by US rules) by a US-based transfer agent (registrar) who

administers the UK share register[5] via connection from the US. This arrangement supports the requirements for US listings while managing UK legal requirements, including facilitating payment of UK stamp duty. This structure was implemented to allow UK plcs to directly list their ordinary shares in the US and was subject to agreement with HMRC and DTCC (the US CSD) to balance US and UK legal and market infrastructure requirements. To comply with the DTCC operating practices, it is necessary for the DTCC nominee entity, Cede & Co., to hold direct legal title on the share register. This is a condition of the eligibility agreement to allow UK plc securities to be held and settled in DTCC.

While the draft recommendations do not specifically address these various international structures, the Taskforce's recommended position, on the face of it, would require **all** securities of a UK plc to be mandatorily intermediated in CREST positions. This would significantly complicate record-keeping in foreign markets, which would effectively require overseas listings to facilitate share holdings and settlement via links between CREST and the foreign CSDs, effectively disallowing operation of branch registers and directly registered positions in those markets. While CREST has established some international links, not all markets are connected.

Development of bilateral CSD links between all affected markets would be a notable undertaking. Our clients alone operate branch registers in at least eight jurisdictions, excluding the US arrangements. This presupposes considerable commitment by EUI and each affected foreign CSD, in addition to foreign and UK regulatory requirements, to establish the requisite legal, operational and system requirements. This would necessitate a detailed and complex analysis per market to determine requirements and reconcile different obligations, which is simply not necessary under existing arrangements, and could inhibit UK plcs' access to international capital.

Foreign regulators may take issue with the mandatory intermediation requirement and the consequent loss of direct ownership and shareholder rights for investors in their jurisdiction, creating further possible conflicts of law for the UK plc in continuing to list in that market.

Even if such actions are committed to by the many affected CSDs and regulators, there is likely to be discussion to determine responsibility for driving this and who bears the costs. We anticipate the CSDs looking to issuers to recover their up front and ongoing costs for establishing bespoke arrangements. Failure to implement arrangements would further damage the affected issuers' international reach and potentially their cost of capital.

For UK plcs listed in the US, the nominee approach would prompt major changes to how such issuers could access DTCC – indeed whether they can continue to access DTCC and support their US listing. It would necessitate a willingness by DTCC to hold its shares via an account at CREST, which DTCC has previously indicated to us that it is not willing to do, and amend its standard operational model, including its UK plc eligibility criteria.

Additionally, due to the extension of its notary functions to US listed securities if these companies must place their shares in CREST, EUI would most likely be required to become

[5] Issuers are not permitted to operate Overseas Branch Registers in the US under s.129 of the Companies Act

registered with the US Securities Exchange Commission (SEC) as a US transfer agent. We question whether EUI would be prepared to undertake this and associated SEC oversight.

The digital register model is consistent with the existing arrangements for US and other overseas listings and would not create these complications.

While we appreciate the government's focus is on supporting the position of the UK market, this is an important consideration for the international reach of UK plcs, including supporting global employees. There is a significant risk of detrimental impact on affected companies as well as diminishing the reputation of UK as an internationally-open and dynamic market.

This conflicts with the government's guiding principle to consider how a reformed UK system would work efficiently with international systems. We are concerned that mandatory centralisation of all securities into CREST would in fact be detrimental to the highly-regarded international reach of UK plcs and unnecessarily complicate their engagement with other international markets and access to international capital. We anticipate this having material detrimental impact to a number of our clients. We urge the Taskforce therefore to further consider this element as it assesses the costs and benefits of its preferred approach to dematerialisation.

Other Consequences of the Nominee Model

Implementation of full mandatory intermediation generates a number of consequential issues that would need to be addressed, when shares can no longer be registered outside CREST:

- For securities that delist or otherwise become CREST-ineligible, an alternate method of registering securities is essential.
- We question how the nominee model could deliver on the government's goal of a solution that can cater for private companies as well as public. Requiring private companies to obtain CREST eligibility would add additional cost to their operations. If they remain certificated, they face additional costs at IPO due to the need to move existing holders into CREST nominees.
- CREST does not admit restricted securities. This will create concerns for private companies, with for example restricted founder shares as well as recently listed companies that may still have restrictions on insiders.
- The impact on various corporate requirements such as obtaining quorum or managing Schemes of Arrangements requires consideration.
- If the ambition of the UK is to provide a more seamless transition from incorporation to public listing via, potentially, intermittent trading, then the suggestion approach would introduce additional friction along the journey.

While it is conceivable that solutions to these and other various complexities could be implemented under the nominee model, they will each require analysis and, in some cases,

further regulatory and/or legislative changes. By contrast, the digital register is significantly less disruptive.

Q6.	Do you agree that the dematerialisation of current certificated holdings would be optimally pursued in a two-stage process, first to dematerialise to a single nominee (which could be sponsored by the issuer, an intermediary acting on its behalf or a collective industry nominee) and second to allow individual participants to move their beneficial interests to a nominee of their choice electronically?

As detailed above, we do not support the over-arching approach of mandating dematerialisation into nominee accounts, whether implemented in one or two stages. We note that the report creates considerable uncertainty with respect to the use of a single nominee and possible consequences for issuers and investors after the first stage concludes, which inhibits proper assessment of this question.

While a two-stage approach may superficially appear to bridge the move from direct registration to all investors holding via commercial nominees, the lack of detail raises critical questions around the obligations and costs that may be imposed on both issuers and shareholders. It does not alter the premise that shareholders would have their ownership and shareholder rights removed and become subject to the terms of the nominee's service offering, which may vary over time. Concerns that should be addressed in further analysis of this possible approach include:

- Transfer into a nominee, whether commercial, sponsored by the issuer or centralised, requires completion of account-opening documentation by each affected certificated shareholder. Circumventing this by legislation risks undermining important risk controls and investor protection requirements.
- What rights would investors be entitled to under the nominee? Will they have access to various shareholder rights, in a contractual form from the nominee rather than by right of ownership, such as voting etc? Is there risk of subsequent change to those contractual rights?
- How will investors that cannot hold via nominee (e.g. due to residency) be treated?
- How would a single nominee be funded? Would investors need to pay; will issuers have any funding obligation?
- What would the obligations on issuers be, e.g. with respect to accessing shareholder rights, dissemination of dividend payments, distribution of corporation action entitlements etc?
- How would transition to the second stage be managed – requiring investors to then transfer to a commercial nominee provider? What happens to investors that fail to undertake this step?
- Will new purchasers of shares after transition to this model be able to enter the nominee, or will thereafter investors only be able to participate in IPOs or purchase shares on-market if they have appointed a nominee? We question how this supports retail participation in the UK capital markets, as sought by the government and urged through the recommendations of the Austin Report.

It is premature to assess this question without more informed analysis.

Q7.	Do you agree that facilitation of shareholder rights should be left to market forces, with full transparency as to whether access to such rights is available and where it is, clear communication around ease of access and charges allowing shareholders to choose between full service or lighter touch models?

We agree that the **facilitation of delivery** of shareholder rights by intermediaries should be left to market forces. This is distinct from determining what rights should be accessible by beneficial owners.

We question how effectively the draft recommendation delivers on the government's concern to ensure that all intermediated investors should have a universal ability to exercise rights equivalent to those of directly registered shareholders, regardless of the intermediary that they use.

We also are concerned with ambiguous commentary in the report that suggest some expectation of new issuer responsibilities in servicing or supporting all UBOs. It is critical that the roles and responsibilities of all parties are clearly articulated in the proposals to enable informed review and response.

Q8.	What should the service level agreement be between issuers and the intermediation chain, with regard to the provision of UBO information? With regard to turnaround time and the frequency of request, what would constitute 'fair usage' of that process – essentially a 'baseline' obligation? Should aggregation be permitted such that individual UBOs below a minimum percentage ownership need only be communicated in aggregate; what should that percentage be?

We support digitising the process of issuer disclosure requests under s.793, not creation of additional and potentially conflicting requirements. The process should utilise the market experience developed via implementation of SRD II shareholder disclosure requirements, including a digitised mechanism to allow requests to be sent directly to one or more intermediaries by the issuer or their appointed disclosure agent, and thereafter passed on through the chain of intermediaries. Appropriate response times should be agreed. While we appreciate that UK intermediaries are customarily responsive to disclosure requests, once it needs to pass through intermediary chains responses become less certain.

With regard to a baseline obligation, the legal obligations should be aligned with s793 requirements, and we do not support any proposal regarding minimum disclosure levels. To set such a limit would create new limits on issuers' disclosure rights.

Q9.	Do you agree that only issuers should have the ability to access information below the level of what is recorded on the company's share register? Should there be restrictions on how issuers can use that information, including sharing the information?

Issuers are required to operate a 's.808 register' documenting beneficial owners identified via a s.793 disclosure request. Access to this is governed under Companies Act 2006 and must be for a defined proper purpose. Any enhancement in the process for disclosures by adopting digital solutions should not reduce the level of transparency of share ownership in the UK. However, we appreciate that an enhanced disclosure process could include additional personal data such as e-communications information. Any personal data not already identified as accessible on s.808 registers should be accessible only to the issuer, and only used for defined purposes. Access by the issuer should include their appointed agent in circumstances where the data is accessed and used for agreed purposes.

Appendix 1 – Digital Register Model

A Simpler and More Effective Way to Deliver Full Digitisation

Friction in the market is generated by the continuation of paper processes – certificates and other paper-driven requirements – not by the co-existence of two components to the Register as suggested within the report. This is a fact well-evidenced by the experience of markets such as Australia where highly efficient links between the CSD and directly registered positions outside the CSD support seamless movement of shares. Shares can be transferred from non-CSD holdings into CSD accounts (with secure authentication, controls and investor protection) within seconds.

The considerable number of shareholders holding directly in their own name has remained relatively consistent for years, even as numerous investors have exited and entered company registers over time as their investments vary. It underscores why investor choice on whether to be intermediated or hold directly is a key feature of UK securities administration infrastructure.

Digital Register

The government's Terms of Reference for the Taskforce recognised that dematerialisation must not damage the existing rights and benefits of direct registered (certificated) shareholders, while minimising disruption and costs to issuers and delivering real net market benefits. The digital register model allows investors to continue to choose to either hold their securities through nominees, or to be directly recorded as the owner on the issuer's share register.

The Taskforce report dismisses the value of this investor choice, on the assertion that certificated shareholders have chosen paper not direct registration. Yet, in addition to the views of UK investors, there is strong international evidence of shareholders continuing to choose direct ownership – without regard to the availability of paper certificates – which we detail in response to Q4 above.

Adopting this approach would minimise market disruption by mirroring the choices available in the current UK model and leveraging existing infrastructure. The existing interface between registrars and the CREST system can readily be streamlined to deliver seamless movement of securities between direct-registered and CREST positions digitally, without the CREST Counter, once paper is eradicated. Securities can move between the two components of the Register as easily as happens now between CREST accounts – a frictionless process already implemented in other markets such as Australia, where shares can move in and out of the CSD within seconds.

Benefits

This is a cost-effective solution, using existing infrastructure such as digital registers of members and the registrar/CREST interface. There would be no change to the legal rights or costs for affected shareholders, such as proxy voting, attending shareholder meetings,

participating in corporate actions etc; and no new custody cost for investors, or exposure to intermediary default, just to continue to invest in shares.

Issuers and shareholders will see further benefits over time, including:

- Significantly reduced transaction time and costs for shareholders, with highly efficient access to the market systems to trade. This will support the move to T+1.
- Cost benefits to issuers from accelerated adoption of digital communications and investor servicing.
- Removal of the costs associated with the replacement of lost share certificates.

International Experience

Many leading international markets use variations of this approach. It is a well-established structure that preserves the ownership rights of shareholders, while supporting process efficiency and digital-first shareholder servicing.

The United States, Canada, France and Australia have all allowed dematerialised directly-registered holdings outside the CSD for decades. The Republic of Ireland is in the midst of transitioning to full dematerialisation, also facilitating directly registered ownership outside the CSD. A similar model, referred to as the Uncertificated Securities Market, is currently being developed in Hong Kong[6].

Implementation Requirements

The initial conversion process from the certificated environment should be supported by:

- facilitative legislation authorising issuers to cancel certificates without recall[7] and without requiring shareholder approval;
- amending current legislative requirements to issue paper certificates and update other related processes to ensure continued integrity and security (e.g. off-market transfers, corporate action elections);
- agreeing a coordinated market-wide education campaign for all investors and intermediaries on the changes;
- minimising issuer-specific communications, to prevent duplication and unnecessary cost; and,
- insofar as possible, agreeing best practice to streamline common shareholder requirements such as digital identity or other means to create digital holder records.

This approach will complement and enhance the Government's digitisation strategy. It ensures that there is **no degradation in the ownership and other shareholder rights of certificated holders** and preserves investor choice**,** while offering a **simplified transition** that minimises cost and complexity.

[6] USMCP_2020_EN.pdf (hkex.com.hk)

[7] For example, the Australian market successfully converted to full dematerialisation without requiring certificates to be recalled, via a comprehensive market communication programme. This approach is also consistent with UK market practice for major capital transformations, where certificates are not recalled.