



PRESS RELEASE

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INDUSTRY GROUP PROPOSES TO DEMATERIALISE CERTIFICATES AND ENFRANCHISE SHAREHOLDERS IN THE UK

Initiated by ESF, European Securities Forum, an Industry Working Group proposes the dematerialization of share certificates and the opportunity for further enfranchisement of shareholders in the UK.

The Industry Working Group led by UBS Investment Bank and including representatives from the broker community, the registrars, LSE, CrestCo and industry associations has discussed the issues arising from an inefficient and paper-based process involving share certificates and transfer forms. The Working Group has also considered the options to further facilitate shareholders' enfranchisement. A high-level consensus-based solution to move to a paperless, electronic approach which can enfranchise all shareholders - whether they hold shares directly or indirectly - has been agreed by all parties.

The Working Group believes that it has established a strong case for reform and the proposal outlines the high-level principles for a solution, including the need for legislation.

Three specific recommendations are made in this document:

- Full dematerialization of all shares issued in the UK ¹
- Enabling the enfranchisement of all shareholders, whether they hold their shares directly or indirectly, so that they have the opportunity to receive company reports and to vote.
- The need for a working party to refine the details of the proposed solution and formulate a detailed implementation plan. The participants of this group would include all affected parties and its work would be open and consultative.

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The solution will provide substantial benefits for the individual shareholder and for the whole industry that can be summarized as follows:

- For individual shareholders, the proposal reduces trading costs and transaction times. Also giving all shareholders the opportunity to exercise their rights would enable greater shareholder participation in the decision-making process of the companies they invest in.
- For the industry, the solution will provide a wide range of benefits including greater automation, a more efficient and timely settlement process, an enhanced corporate governance structure and significant net savings. The Working Group estimates that net savings would range from £110 million and £230 million over the first three years if the proposals were implemented in full. Such reform would ensure that the UK continues to develop and improve its already highly efficient settlement and governance infrastructure; this will also help to maintain the City's preeminence in Europe securities markets.

“Dematerialisation would significantly lower the costs for companies, brokers, registrars and the individual investor. This proposal, if adopted, would moreover mark a major improvement in the rights of shareholders who hold their UK securities through nominees” Werner Frey, CEO of ESF, said in a recent meeting.

The group hopes the legislation needed to implement the recommendations could be included in the Company Law Reform Bill due to be published later this year. Therefore the proposal has been sent to the Department of Trade and Industry for consideration.

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Background Note

The European Securities Forum was created in 1998 and represents some 20 of the largest international banks operating in the European securities markets.

ESF’s prime objective is the creation of an efficient pan-European capital market through consolidation and integration of its securities infrastructure as well as appropriate and enabling regulation.

¹ Full dematerialisation is necessary to ensure that the cost savings materialise. The current dematerialisation through CrestCo is voluntary and while over 85% of the value of securities issued in the UK is held in dematerialised form in the CrestCo system, around 10 million private investors still hold and settle in certificated form; this adds significant costs to brokers, issuers and their agents, and ultimately the investor.

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