[To be dropped onto company letterhead]

To: digitisationtaskforce@hmtreasury.gov.uk

**[Insert company name] response to the Digitisation Taskforce Interim Report**

Dear Sir/Madam

**Introductory remarks**

[Insert opening paragraph about your company, as you see fit, perhaps referencing aspects such as your listing status.]

We welcome the opportunity to respond to the recommendations made by the Digitisation Taskforce, given the substantial impact the proposed changes will have on share ownership structures, shareholder rights, ownership transparency and future issuer obligations.

We are supportive of the over-arching policy objective of digitising the share ownership model in the UK and taking action to improve market efficiency through a reduction in paper and improved communication methods. However, we are concerned that the recommendations for actions to give effect to this policy will result in significant disruption to existing shareholders and an effective loss of both their shareholder rights and choice of how their shares are held, unnecessary cost for issuers (both in transition and ongoing), as well as increased ongoing complexity for the market. In light of this, we consider it essential that there is a full cost-benefit analysis undertaken if the intention is to proceed with the Nominee model, before final decisions are taken.

More detail of our views can be found in our general comments below, as well as our responses to each of the questions posed in the report.

**General comments**

We have followed with interest various initiatives designed to progress digitisation of the UK shareholding frameworks and improve the rights of investors. This includes Mark Austin’s review of Secondary Capital Raising, which made proposals designed to improve retail investor participation, as well as the formation and work of your Digitisation Taskforce. We are supportive of the terms of reference for the Digitisation Taskforce and are, like you, keen to remove physical share certificates in a manner that does not degrade the property ownership and rights of shareholders, while also seeking improvements to the services available to investors who have chosen to hold shares via an intermediary.

However, from reading the recommendations and listening to our peers, investors, and the wider market, we feel that these aims will not be fully achieved if the recommendations are pursued as set out. We have concerns in the following areas:

1. **Impact on shareholders** – We feel that the ‘preferred’ approach to delivering dematerialisation risks alienating our existing certificated shareholders by requiring them to identify and source a nominee provider and affect a transfer of their property to that party. 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. We anticipate that many shareholders are unlikely to be commercially attractive to intermediaries, as a result of being long-term investors with relatively modest shareholdings. Where they are able to source a nominee arrangement at a price they are willing to pay, existing shareholder rights will be lost and any future ability to attend general meetings, participate in corporate actions or receive communications from the company will, if even offered, be subject to the terms of service of their nominee. Associated services may also come at an additional charge. We note that despite indicating that investor views will be prioritised, the report is not being actively publicised and consequently existing shareholders are likely to be largely unaware of the proposals.
2. **Costly and complex transition process** – The requirement for existing certificated shareholders to source a nominee provider and transfer their shares will be a challenging process, requiring significant communication effort and support. The process of transferring the assets of all certificated holders into nominees will need to be supported by key stakeholders across the industry and no doubt also incur cost. We also question how easy this approach will be to achieve from a legal perspective.
3. **Ongoing complexity and cost for issuers –** We recognise that the report contains only interim recommendations and there is currently insufficient detail, to understand the full implications and future market mechanics. However, in addition to the transitional issues mentioned above, we are concerned at the prospect of unnecessary cost arising from an obligation to help manage shareholders who have been unable to source a nominee to act on their behalf, perhaps through the introduction of a Corporate Sponsored Nominee (CSN). The establishment and ongoing support for this regulated activity is likely to incur significant cost.

We are also concerned at the implications regarding future servicing of Ultimate Beneficial Owners (UBOs). There is a suggestion in the paper that UBOs may, in future, opt to be serviced directly by the issuer (e.g. in relation to dividend payments). We believe UBOs should be serviced by their chosen intermediary and through the ownership chain. The alternative of imposing direct servicing obligations on the issuer would create considerable operational challenges and burden the UK market with the associated cost of building a robust market mechanism to exchange relevant UBO data in a timely fashion in/around relevant company events (e.g. company dividends or meetings). Significant data integrity concerns would also arise from such a requirement.

On a macro-level, we recognise and understand the focus on ensuring London remains a market leading and highly efficient securities trading and settlement venue. With that in mind, ensuring that the associated complexity and costs of delivering on the recommendations and administering the requirements on an ongoing basis, is a critical consideration.

More generally, we believe the objectives of the taskforce can be achieved in a simpler fashion, with less disruption, cost, and complexity for the market.

It is our belief that a digital register with the retained option for investors to continue to hold shares directly on our register of members would be significantly easier to implement. Communication with the existing shareholders would be simplified as there would be limited requirement for them to take concerted action, save perhaps for the provision of an electronic address to enable the digitisation of future company communications. Their shareholder rights would not be impacted and their experience of being a shareholder would be enhanced (e.g., access to digital transactions unencumbered by paper). Providing this method of shareholding can be sufficiently digitised, it is a choice we would support investors having in the future.

We welcome the potential for a market driven technology to facilitate UBO disclosure and to improve communication within the chain of ownership via intermediaries. As referenced above, we feel that UBO servicing should be the responsibility of their chosen intermediary, rather than a responsibility that might be transferred to issuers, with the resultant complexity that would need to be managed.

**Question 1: 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?**

Our organisation feels that the appropriate timeline for implementation will be dependent on the final solution being introduced. If you proceed with the concept of mandating that all shares are required to be held via nominees within the CREST system, the time needed to communicate and affect this considerable shift in market structure will be significant. It must be remembered that many currently certificated shareholders are, perhaps, relatively unsophisticated investors. It would be necessary to allow them time to understand the proposals, identify an appropriate nominee provider and complete the necessary steps to register for their services and complete their share transfer. To do so successfully across the market will require extensive communication and support from industry, issuers, and government. We believe this might require a lead time of 24-36 months from the time Royal Assent to all required legislative changes is granted. A rushed process could result in even more significant shareholder dissatisfaction.

If, however, a digital register preserving the option of holding shares outside of CREST is pursued, it is our understanding that this model could be implemented much more quickly. By legislating to remove the requirement to issue physical share certificates and having the existing digital register of certificated shareholders represent definitive records of title, the transition to a fully dematerialised register could be achieved much more quickly, without the need for millions of shareholders taking steps to make future holding arrangements via nominees. The required communication to retail shareholders would be significantly reduced as no affirmative action would be required of them. Based on the experience we understand the market has from the recent introduction of dematerialisation along similar lines in Ireland, we feel that a 12–18-month window would be sufficient.

**Question 2: What approach should be taken to the disposition of ‘residual’ paper shares, and should a time limit be imposed for identifying untraced UBOs?**

We agree that all issuers should be proactive in addressing those shareholders who have become lost from their investment, and those that have or are taking action will do so under existing terms within their articles and in line with defined terms for what a ‘dormant’ shareholder is.

[Consider sharing details of any specific actions you have taken in this regard].

It is important to note that we do not currently consider the vast majority of our certificated shareholders to be ‘dormant’. In pursuing a nominee model for holding shares in future, there is a considerable risk of currently certificated shareholders who fail to take required action being inappropriately regarded as ‘lost’.

Each of the options for handling the ‘residual’ shares held by these individuals involves a degree of challenge and the potential for shareholder dissatisfaction. All approaches would, we presume, require changes to company Articles of Association. Any sale of residual shares that have not been transferred ahead of an imposed market deadline would be highly controversial. The establishment of a corporate sponsored nominee arrangement as an alternative, would incur additional cost for UK PLCs, yet may not be able to service all shareholders e.g. due to potential restrictions on shareholders in some jurisdictions. Whilst the transfer of assets to the Dormant Asset Scheme, may seem attractive in theory, it would require a review of definitions of dormancy within the associated legislation and may therefore not be easy to implement.

**Question 3: 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 associated as well has having the option to transfer proceeds of sale to the UK’s Dormant Asset Scheme?**

It is common practice for issuers to have forfeiture provisions within their Articles and we believe we should continue to have full discretion regarding tracing mechanisms/timescales and associated decisions to reunite or forfeit shares where appropriate.

**Question 4: Is the ability to have digitised shareholdings held on a register outside the CSD important to issuers or UBOs?**

We understand that shareholders who hold certificates do so to have direct legal ownership of their property and direct shareholder rights as laid out in legislation. We do not believe they hold shares out of a desire to possess a certificate, as is suggested in the report. For the various reasons set out in our introductory comments, we believe that the choice to hold shares directly on the register, albeit in fully digitised form, must be retained.

The ability to hold shares directly at no cost to the investor is a long-held feature of our shareholder democracy and is a significant contributory factor to long-term investment by retail investors in UK PLCs. Similar direct holding opportunities are offered in many of the world’s leading capital markets and continue to be highly valued.

Mandating investors to hold shares through an intermediary where they may be subject to reduced service levels, whilst incurring associated ongoing fees, is inappropriate in a climate where UK policymakers have a stated ambition to improve access of retail investors to UK markets.

**Question 5: 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 can understand how it might be superficially attractive to consolidate all shares into the CREST system. However, it must be remembered that certificated shareholders often make up a far bigger proportion of the total number of investors, and it is this population that will be most impacted by proposals to remove share certificates. Therefore, these recommendations need to be carefully considered to ensure optimal outcomes.

We believe investors should continue to have a choice regarding how their shares are recorded, as they do today. Those that wish to elect to use the services of a nominee should be able to do so. Those that wish to be directly registered should be able to make this choice, with their record of ownership fully digitised in the future.

As referenced previously, we believe that mandating the use of nominee arrangements for existing certificated holders will give rise to significant transition and support costs – communication, project management, query management and ongoing costs for management of non-respondents/passive shareholders (‘residual’ certificated shareholdings). A requirement to transfer ownership of shares to a nominee and incur associated costs may also result in shareholders seeking alternative investment opportunities, to the detriment of UK PLCs.

**Question 6: 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, and 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?**

For the reasons stated above, we do not see the need for either a one or two-stage approach to the introduction of mandated used of nominees for holding shares. Investors already have the option to hold shares via a nominee and many elect not to do so.

If, however, the mandatory use of nominees is pursued, it is important to consider aspects such as the required KYC that would need to be undertaken as part of any transition to a single nominee (whether sponsored by the issuer or not), as well as jurisdiction challenges that may exist and prevent some existing shareholders from being able to transfer shares into the designated nominee arrangement.

**Question 7: 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?**

Despite our contention that investors should retain an option to be directly registered and benefit from full shareholder rights, we are also supportive of market forces driving improvements in the engagement and participation in company events (meetings, voting, corporate actions) for investors who hold their shares via an intermediary. We welcome the recommendation that intermediaries are transparent in connection with the services they offer and the associated costs. At present, the lack of transparency and barriers, including cost, limit the ability of UBOs to play an active role in the good governance of our organisation. This does need to be addressed.

**Question 8: 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 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 do not see that it is appropriate for there to be service level agreements between issuers and intermediaries beyond those requirements set out in company law. Investors that have opted to hold their shares via an intermediary should rely on the terms and conditions of their nominated service.

However, there should be market best practice for the timeliness of communications throughout the chain and further transparent engagement should be had with interested market participants as to how best to facilitate such associated solutions.

In our opinion if an issuer is given the ability to trigger an ‘on-demand’ request for information then we would wish the optional ability to set a threshold and not have a prescribed minimum percentage of the issued capital.

**Question 9: 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?**

While it’s always important to protect the data of individuals, this must be weighed with the public interest associated with understanding the ownership of organisations. The recommended approach would theoretically see a removal of existing transparency obligations in relation to beneficial ownership (via the Register of Interests). Consideration needs to be given as to whether this is an appropriate course of action.

[Insert appropriate sign off]