

## Press Release

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**UK Shareholders Association**  
BM UKSA  
London  
WC1N 3XX

Phone: 0870-70-60-600  
Email: [uksa@uksa.org.uk](mailto:uksa@uksa.org.uk)  
Web: [www.uksa.org.uk](http://www.uksa.org.uk)

## **UKSA Criticises the Company Law Reform Bill for Weak Provisions on Shareholder Enfranchisement**

The new Company Law Reform Bill has recently been introduced into the House of Lords. The UK Shareholders Association (UKSA) welcomes many provisions of the Bill, but feel that the provisions for the enfranchisement of nominee shareholders are totally inadequate.

### **Shareholders Disenfranchised and Ill Informed**

Shareholders in nominee accounts are currently disenfranchised in that they have no rights to attend or vote at the general meetings of companies. Although such rights are held by the nominee account operators, they often do not pass them on to the beneficial owners of the shares. Neither do shareholders receive information from the companies such as a copy of the Annual Report & Accounts. As a result they are ill informed, and may not even be aware of critical decisions that may affect the value of their shareholding in a company. For example, they may not be told of take-over bids for the company or be permitted to vote on the outcome.

### **The Reasons for the Rise in Nominee Account Holders**

Unfortunately the government has previously forced people into nominee accounts by requiring holders of ISAs and PEPs to use such accounts, i.e. you cannot get these major tax benefits without using a nominee account. In addition, stockbrokers have encouraged the use of nominee accounts as they "lock-in" the clients to using their service for future trades. As a result the use of nominee accounts is becoming more and more common, and is distorting corporate governance and undermining shareholder democracy. UKSA has long argued that the government should give back to shareholders their proper rights so that the "one-share, one-vote" principal is restored in respect of all of the beneficial owners of shares.

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**UKSA—The independent voice of the private shareholder**

The United Kingdom Shareholders' Association Limited  
Registered in England No. 4541415; Registered Office: Larchwood, Crabtree Green, Collingham, Wetherby LS22 5AB

## **Principles Undermined by the Likely Practice**

The principle of the enfranchisement of nominee shareholders was agreed by financial industry participants in the European Securities Forum (ESF) document published in December 2004 and entitled "Better, Quicker and More Efficient Arrangements for the Individual Shareholder". This said in para 4.2.1 that "...**we propose that investors who choose to use a nominee company as a vehicle for their investment should also be enfranchised as if they held full legal title (their own name on the register)**". This was supported by the Company Law Reform White Paper which referred in section 3.2 to the extension of "governance rights" to indirect investors and the "right to information" for such investors. The latter would be supported by reserve powers if the market did not deliver a solution. But it is now very clear that the market will not provide comprehensive enfranchisement to shareholders in nominee accounts.

For example, the Bill's provisions anticipate that it will be optional for companies to implement such enfranchisement and many smaller companies, represented by the QCA, and the CBI are opposed to a general duty of enfranchisement. In addition, it will certainly be optional for brokers to implement support for such enfranchisement even when companies choose to do so, and it is clear many brokers may not do so. For more information see the following note on our web site at:  
[www.uksa.org.uk/Shareholder\\_Enfranchisement\\_Background.pdf](http://www.uksa.org.uk/Shareholder_Enfranchisement_Background.pdf) (a pdf document).

## **A Moral Right Not an Optional Deference to the Principle**

UKSA believes that it is a moral right, and **should be a legal right**, for all beneficial shareholders to be fully enfranchised in all cases. Shareholders should have unquestioned rights in this regard, just as they do in other jurisdictions such as the USA, and even a prospective European Directive may implement the same principle. We therefore believe that the Company Law Reform Bill should have much tighter provisions in respect of the enfranchisement of beneficial shareholders in listed companies. In our view, the government should take much more vigorous action to deliver rights to nominee shareholders, and not simply leave it up to financial industry players in the vain hope that they will deliver a working solution.

As a result we shall be commencing a political lobbying campaign to get such changes made before the Bill becomes law.

## **About The UK Shareholders Association (UKSA)**

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is solely owned by and primarily financially supported by its individual members.

## **For further information, please contact:**

Roger Lawson, Communications Director  
Telephone: 020-8467-2686  
Email: [roger.lawson@btclick.com](mailto:roger.lawson@btclick.com)

or; David Blundell, Chairman  
Telephone: 01937-572327  
Email: [dwwb@btinternet.com](mailto:dwwb@btinternet.com)