

Press Release

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Shareholders Face Major Problems as a Result of Holding Shares in a Nominee Account

The UK Shareholders' Association (UKSA) has often raised the dangers of holding shares in nominee accounts as opposed to having the shares registered in your own name. A good example of this is the difficulties faced by investors who purchased shares from Pacific Continental Securities (UK) Ltd (PCS). This firm, who specialised in promoting smaller companies such as AIM-listed stocks, was ordered to cease accepting new business by the FSA and soon after went into Administration (on the 20th June 2007). The Administrator subsequently sold some of the assets to Caspian Stockbrokers which has since been renamed Brooklands Securities Ltd and operates from the same address as did PCS.

The shares purchased by investors from PCS were held by PCS in a nominee account, i.e. they were not held in the name of the beneficial owners. After PCS went into Administration the investors could not trade those shares until the Administrator had established that they were the rightful owners of those assets and reconciled the total claims of all the former PCS clients to the holdings on the share registers of the companies in which PCS had invested on their behalf. In effect, shareholders cannot obtain full title to the shares or sell them.

However, as far as we can determine, at the time of writing the Administrator seems to have made little if any progress in such reconciliation because they cannot get access to the details of the claimed holdings which are held by a third party. The Administrators (Smith & Williamson) also seem reluctant to disclose the nature of the problem or how long it might take before shareholders obtain full title, but they admit that legal action by the Administrators might be necessary if the problem is not resolved. We are sure the Administrator is doing their best in a difficult situation, and appreciate that for legal reasons it may be difficult for them to keep investors fully in the picture.

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UKSA simply wishes to point out that this demonstrates one of the major defects associated with the use of nominee accounts – namely that shareholders lose control of their assets. If the shares had been in certificated form, or held in a Personal Crest account, then the investors name would be on the share register with clear legal title and they could have traded those shares through another broker.

Problems with Pooled Nominee Accounts

Part of the problem is that most nominee accounts are now of the “pooled” variety where individual shareholdings are not identified. Even one of the major UK stockbrokers excludes liabilities for any shortfall in the event of a default of the custodian (i.e. the nominee account operator), even when the custodian is an associated company of the stockbroker and part of the same group. There is a major risk therefore that even when a shortfall is identified the beneficial owner may not have any legal redress.

This seems to UKSA to be a deplorable state of affairs and therefore we will continue to urge shareholders to not accept nominee accounts but to make sure their names are on the share register of the companies in which they invest. Unfortunately this is not possible with ISA accounts so shareholders should be very careful with whom they open such accounts.

More details of the problems of nominee accounts are present on the following page of the UKSA web site: www.uksa.org.uk/Nominee_Accounts.htm and for more background on Pacific Continental see www.uksa.org.uk/Pacific_Continental.htm .

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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 a “not for profit” organisation which is financially supported primarily by its members.