

PENALTIES OF NOMINEE ACCOUNTS

A summary by Eric Chalker, UKSA Policy Co-ordinator

1. You do not own the shares (the nominee account provider does), therefore your legal rights are limited to receipt of dividends and proceeds of sale.
2. Your name is not on the share register.
3. The company has no obligations to you, because it doesn't know who you are.
4. No-one is obliged to send you company reports or even notification that they've been published.
5. Generally speaking, you won't be given the opportunity to vote on any of the issues facing the AGM, but some brokers do provide this service.
6. If you are lucky enough to learn the date of the AGM, your broker may authorise you to attend and vote, but it may not.
7. The shares bought with your money may be merged with others and you have no guarantee that the total is correct (some brokers actually draw attention to the possibility of a shortfall in their terms and conditions).
8. Your nominee account provider may enjoy privileged status as a '3%' shareholder (because of all the shares held by it as nominee, bought with private investors' money), but it is unlikely to consult you before deciding whether or not to vote them in any particular way, or at all, although it may use the size of its overall holding for its own commercial purposes (as did Brewin Dolphin recently, in respect of Alliance Trust).
9. You can sell your beneficial rights to the shares only through the broker who bought them for you, unless you pay a fee to transfer them to another broker, in which case you will then be once again tied on a similar basis
10. You probably have to pay an annual fee to each nominee account provider and there may also be a charge for any company reports you want and even transmission of dividends.
11. Your broker may undertake not to lend your shares (whether for the purpose of voting them, possibly against your interests, or to a short seller seeking to drive down their market value), but it is likely to reserve the right to sub-contract any of its activities which potentially nullifies that undertaking.
12. If your shares are the target of a takeover recommended by the directors, you are unlikely to be given a say in the matter and, even if you are, there may be little time to decide what to do. You may not even be told until you discover they've been acquired for less than what you believe is their true value (this may happen even if a majority of a company's shares are held in nominee accounts so that the takeover is approved by a less than 50% of the equity).
13. If your account provider goes bust, you will have no guarantee that your investments will be preserved, no certainty of what future form they will take, no probability of selling any of them in the short term and can have no confidence of receiving any monetary value *in lieu* of their market value amounting to more than £50,000 in total (that's in the UK: in the USA the limit for compensation is \$1million).