

The battle over pooled nominee accounts

by Eric Chalker

This January, the Department for Business, Innovation & Skills (BIS) published a research paper on the 'Intermediated Shareholding Model'. It can be found on our website, together with UKSA's formal observations which I encourage members to read (and Roy Colbran gives his personal comments below). The government wanted information to assist it prepare for dematerialisation (the abolition of share certificates) and for potentially adding to the limited rights available under Companies Act (Part 9) for investors using pooled nominee accounts. The research paper provides a good exposure of the forces ranged against our interests.

In the course of many hours' discussion on these subjects with BIS officials over the past two years, I have persevered with the case for preserving shareholder rights when shareholdings become electronic records, for the eventual enfranchisement of pooled nominee account users and for the extension of the latter's rights in the mean time. It seemed at one point that some reform of Part 9 could be expected before the general election of last May, but time ran out. New ministers are now in place, the work that was interrupted has recently resumed and I am once again in discussions with the Department. I find the situation encouraging, but it would be a mistake to be complacent.

The research paper tells us that, "*The Government wants to encourage better and greater shareholder engagement with companies in order to facilitate good corporate governance.*" The purpose of the research was to examine all aspects of the effect of intermediated holdings on this government aspiration. I welcome the fact that the consequences of intermediation have been laid bare, especially on pages 110 to 117 of the paper. The conclusions to be found on pages 133 to 138 make it clear that the Government has a series of problems to address, including what might be described as a veritable shambles when it comes to institutional voting of shares.

Our principal concern, of course, is with the effect of intermediation on individual investors. In that regard, it has been necessary to challenge some of the reported findings, many based on the obviously self-serving comments of stock-brokers. When owners' ability – individual or institutional – to exercise the rights given to shareholders by Parliament is diluted by intermediation, as is clear from this research, the effectiveness of engagement will also be diluted and even nullified. To strengthen engagement, the Government must first ensure that those who put their money into company shares are fully able to enjoy the rights the Companies Act has given to shareholders.

Eric Chalker, Policy Director