

PENALTIES OF NOMINEE ACCOUNTS

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1. You will not own the shares (the nominee account provider does), therefore your legal rights will be limited to receipt of dividends and proceeds of sale.
2. You will 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 for the transmission of dividends.
3. Unless your broker gives you 'information rights' under Part 9 of the Companies Act, your name and address will not be known to the company so it will have no obligations to you because it won't know of your existence. Without 'information rights' (which are rarely granted), no-one will be obliged to send you company reports or even notify you that they've been published.
4. Generally speaking, you won't be given the opportunity to vote on any of the issues facing the AGM, although some brokers provide this facility, for which they may make an extra charge.
5. 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. If it does, it may charge for this.
6. The shares bought with your money may be merged with others and you will have no guarantee that the total is correct. Some brokers actually draw attention to the possibility of a shortfall in their terms and conditions.
7. 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) and so be expected to exercise a 'stewardship' role over the investee company, but it is unlikely to consult you before deciding what to do in this respect, or advise you of what it has done.
8. Your broker may undertake not to lend your shares (potentially to a short seller, seeking to drive down their market value) or vote them without your authority, but it is likely to reserve the right to sub-contract any of its activities which potentially nullifies that undertaking.
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. If you want to change brokers this is very likely to be expensive, but it may also take (according to reports) as long as nine months, during which your investments are likely to be frozen.
11. 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. Such a takeover may happen even if a majority of a company's shares are held in pooled nominee accounts and the consequence is that the takeover is approved by less than 50% of the equity – because there is absolutely no legal minimum required to authenticate such a takeover.
12. If your account provider goes bust, you will have no guarantee 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).
13. Your nominee account provider may (as does happen) refuse access to your investments and even stop transmission of dividends, for seemingly arbitrary reasons and at short notice.
14. You may also be refused the chance to take scrip dividends, when these are offered in place of cash.
15. You are likely to be denied the opportunity of applying for excess shares under an open offer, because this can only be done by the nominee if all its investors take up their basic allocation in full.

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