Letters

The following letter has been sent to the Chairman of FCA by our own Chairman, John Hunter. The content is of course self-explanatory.

Dear Mr Griffith-Jones

Pooled Nominee accounts

I attended the WMA Summit today and heard your talk, which I found encouraging both in tone and in detail. I was particularly struck by your comment of not wanting to rely in the future on regulation in the form of 'waiting for things to go wrong'. This has encouraged me to raise with you an issue that UKSA has broached at a number of levels within the FCA but where we feel the reaction has been akin to 'waiting for things to go wrong'.

UKSA is campaigning for investors in pooled nominee accounts to have full rights as shareholders. But that is not what this letter is primarily about. The immediate issue is that investors in pooled nominee accounts are not even being told the nature of their investment.

To oversimplify, such investors have none of the rights of shareholders: their rights, if any, derive from what their broker promises to do for them. Their names are not on the register – indeed the company does not know who they are – and they are subject to counterparty risk with the broker as counterparty.

The extent of ignorance about this matter is illustrated by the explanatory section of the London Stock Exchange website. A description of nominee accounts mentions none of the downsides, but includes statements that 'Investors are ….. the legal owners of the shares' and 'Nominee accounts ….. are financially secure'.

It cannot be right that brokers do not have to explain clearly what they are peddling when they put clients into pooled nominee accounts. And it cannot be right that the government promotes a method of saving – SIPPs and ISAs – without explaining the potential for catastrophic loss if the broker goes down without properly segregating client accounts - (the maximum compensation is £50,000, a sum that would hardly provide an adequate pension). Not to act on this is 'waiting for things to go wrong'.

We would be happy to discuss this matter with an appropriate member of the organisation.

Yours sincerely

John Hunter
Chairman

To the Editor of The Private Investor

Dear Sir,

Should UKSA be involved?

The consultations discussed on pages 8,9 and 10 both relate to retail financial products and not direct investment in shares. Pressures of time and resources meant that we were not able to contribute to the extent that some of us would have liked. However, they give the opportunity to raise the question of whether UKSA should get involved in topics concerning retail investment more widely than just direct shareholding.

There are some who believe that we are an association of individual shareholders with limited resources and should and need to concentrate all our efforts on issues directly affecting them. On the other hand we are a body with the knowledge and desire, at least among some of us, to try to influence these matters more widely. A good precedent is the effort we put into the RDR ("Retail Distribution Review"). One of our members actually gives us credit for achieving the abolition of commission. I wouldn't go nearly as far as that but I do think that the robust comments we submitted must have given a strong push in that direction.

If we had some material part in achieving that objective I would argue that that did more for the public good than anything else we have done. If we have people around happy to give time and energy to other Retail matters in the name of UKSA, necessarily on a very selective basis, why shouldn't we join in? It would be interesting to know what members think.

Roy Colbran

Footnote to Roy' s letter - see overleaf

I understand Roy's wish to spread our resources to cover 'retail financial products', but as a matter of policy we are not doing this because we need to concentrate on the issues that most require our attention, namely those that affect individuals investing in company shares.

Eric Chalker, Policy Director.

Dear Sir,

It is seven in the morning and I am asleep. I wake up because my mobile phone has gone 'ping'. It turns out that the 'ping' is an e-mail from Savill's plc alerting me that they have just published their full year's accounts.

I am interested because I hold shares in this company and have asked to be included in their alert service. I originally bought some of these shares for 332p per shares and have watched them climb to 900p before falling back to 650p. On the day the accounts were published the market was bearish and the price fell steadily until lunchtime. By lunchtime I had analysed the accounts and concluded the market had got it wrong and bought some more at 662p

Belatedly, the market woke up and a week later the price was up to 740p.

The moral of this story is that your best chance of beating the market is to move quickly before the analyst's have had their daily meeting. Those who demand share certificates and wait for the annual report to arrive through the post will miss out as the action will have already happened.

Malcolm Howard