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Digitisation Taskforce  
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Dear Sir Douglas,

### **Digitisation taskforce – interim report**

This letter is written by the 100 Group Main Committee and is intended to speak on behalf of the Group as a whole. The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses. We note that while this letter is intended to speak on behalf of the 100 Group of Finance Directors as a whole, the views expressed here are not necessarily those of individual members nor their respective employers.

We welcome the publication of the Interim Report of the Digitisation Taskforce. We note your conclusion that precedence should be given to the perspectives of issuers and their ultimate beneficial investor base and therefore thank you for the opportunity to provide feedback on the recommendations. We are generally in support of the content of the report and with this letter we seek to share our specific perspectives on the benefits of the proposal as well as what we see as the critical success factors.

The primary and most pervasive point that we would like to flag is the importance of the intermediary chain which must be maintained with absolute integrity and consistency – as issuers we necessarily rely on the chain which exists between us, intermediaries, and the ultimate beneficial owners (UBOs), as the only practicable way to manage identification, communication, dividends, AGMs, etc. This point features throughout our response and will in our view be fundamental to the success of this project. If any more specific insights or clarification would be of use, then we would be delighted to host a discussion.

### **Move the UK to a fully digitized model – driving efficiencies and international equivalence**

We are in full support of the proposed move to a fully digitized share model. Not only does this minimise costs and risks for the issuer (and hence increases shareholder value), given the increasingly international shareholder base of UK equity, and the FTSE350 in particular where the UK institutional and retail UBOs hold a minority share, a framework which increases compatibility and interoperability with international markets is essential to ensure the fluidity of our equity towards the global investor base.

Specifically, we are in support of the proposal for a fully digitized share model, similar to those successfully in place in other international markets, in which: shares are issued in dematerialized form; fronted by one Central Security Depository (“CSD”) (the UK CSD); and that within this UK CSD all shares are held via third party intermediaries, who act as nominee for, and are contracted and paid by, their direct clients (e.g. UBOs, other intermediaries or other CSDs acting as investor CSDs in other markets).

#### *Efficiencies*

A model such as this would support a more efficient structure, through the phasing out of inefficient anomalies, i.e., the certified base (approximately 1% of the FTSE 350)<sup>1</sup>, and by extension the Corporate Sponsored Nominee’s (CSN) (approximately 0.3% of the FTSE)<sup>2</sup>. These legacy minority structures represent a disproportionate burden to individual issuers, and thus their equity holders at large, through: associated administrative inefficiencies; constraints to corporate events which hinder effective governance; and setting UK Corporates apart and behind from their peers in the international capital markets. Notwithstanding this position, issuers must be at liberty to retain or introduce nominee-based structures which they sponsor to facilitate their employee share plans.

<sup>1</sup> Source: Euroclear UK & International (August 2023)

<sup>2</sup> Industry experts see the split between certificated holdings and CSN holdings across the FTSE to equate to 75% certificated and 25% CSN

Our membership has described their specific experiences of the downsides with the current model, where in each case the minority holdings (certificates and CSN) created grossly disproportionate administrative burden. These include Diageo (moving to USD denominated dividends) and Shell (adding the option of settling dividends in USD, acquiring BG Group plc and assimilating its A and B shares in a single line of ordinary shares). Further, those of our membership who are also listed outside of London all describe the relative ease with which all equity related activities are carried out in their equivalent markets. Similarly, others shared the hindrances of the model when executing transformative corporate events like demergers.

#### *International equivalence*

As mentioned, the fully digitized share model to which we aspire is in place in most major international capital markets allowing for absolute interconnectedness. This model already underpins all FTSE100 ADRs programs in the US; the Amsterdam listings of RELX plc, Shell plc and Unilever plc; and the Stockholm listing of AstraZeneca; as well as UK listings of most companies incorporated outside of the UK such as IAG SE (Spain). The same applies to the UK listings of UK plc's that have listed directly in the US and employ CREST depository interests in the UK.

This equivalence will allow UK Plcs to continue to compete on a level playing field with its international peers on the global capital markets, and while we recognise that there are some hurdles to be overcome, we consider that the benefits far outweigh the burden. For example, while UK plc's listings in some (former) Commonwealth countries and territories (e.g. South Africa and Hong Kong) will require some attention, it is our position that the associated details (e.g. Company Act refinement and Stamp Duty Reserve Tax administration) can be easily managed.

### **Priorities essential to ensure effectiveness**

#### *Demobilize existing certificated base*

We welcome the proposal to prohibit the issue of certificates and prevent any already dematerialized shares to re-materialize. We note that this approach has proved effective in many continental European markets as they moved to a fully digitized share model. However, we would recommend that an exception to the latter step be implemented to allow for the handling of untraceable CSN participant holdings. Specifically, we suggest that any already dematerialised shareholding which is deemed untraceable be re-materialised in order to be grouped with the untraceable certificate holders, thus enabling them to be treated in the same way.

In addition, the legislation should also enable issuers to unilaterally annul any (evergreen) elections of certificate holders for scrip dividends (idem for DRIP offerors for evergreen elections for their DRIPs). This removes any discrepancy around the validity of issuers' (and DRIP Offerors') decision to annul these elections while continuing to offer a scrip dividend (or a DRIP) towards dematerialized holders.

We agree that this legislation should be implemented as swiftly as possible, and we see the proposed six month notice period as sufficient. Yet, as successfully done around the abolition of bearer shares in 2015, the application of this legislation must similarly not become dependant upon issuers first amending their articles of association.

#### *Leverage natural attrition then act to manage residual*

It is essential in our view that a full exit strategy is legislated for from the outset. This legislation must include an end date by which time all shares must be dematerialised and a detailed plan for the treatment of any untraceable holders remaining at this future date. We believe that a period of 8 years sets the right balance between being long enough to leverage the benefits of natural attrition while not postponing the benefits too far into the future. Such a transition period also affords holders of these demobilized certificated positions the opportunity to either move into a nominee or sell out. Encouraging UK retail serving intermediaries to welcome investors with smaller holdings would help support this transition, as well as creating the ancillary benefit of opening up the market to other small retail investors.

Further, we propose that at this legislated end date, any untraceable certificated holdings should be transferred to a state-owned structure that sells these holdings in the market resulting in their dematerialization into the fully digitised share model. It would then be the responsibility of The State, without recourse to the associated issuer, to manage any claims of the net cash proceeds from former certified holders (or their heirs), as well as determining any validity period to be applied to claims, and the most suitable use for the interim liquidity as well as the ultimate net cash once a claim period has ended.

Given the track record of dematerialization in the UK and the associated opportunity cost for UK Plcs and their whole beneficial investor base, we suggest that The State do not run another consultation on this post end date process – but rather that they determine to act in the best interest of untraceable holders, as they are best positioned to do.

#### *Shareholder identification*

Effective shareholder identification requires covering the whole intermediated chain and not merely the direct holders in the UK CSD. We suggest that a common process and language be established for use throughout the chains of ownership in order to ensure efficiency and avoid the creation of natural monopolies around this data or the technology employed. This can be realized by extending the spirit of SDR-II across the intermediated chain and employing machine readable protocols (e.g., ISO20022).

Further, we support the ambition for the UK to continue to form part of the vast majority of countries with no de minimis threshold for identification, which ensures material beneficial owners that tend to spread their holdings across multiple chains are not missed. We also appreciate the data privacy concerns associated with this principle. We see the possibility for a suitable compromise where no de minimis is maintained but where issuers are not legally compelled to share details of any retail UBO except where there is a compelling governance principle to do so, for example for transparency of beneficial ownership of institutional investors and their geographical distribution.

*Uniformity of treatment throughout the chain*

We welcome the proposed regulations designed to ensure clarity of message from intermediaries to their direct clients so that the latter has a clear understanding of their rights and how these are affected by the intermediary, as well as any associated costs in accessing them. Enabling frictionless switching between nominees for UK retail investors would further support competition in the market. As with dividend distributions, it is essential that UBOs rights are exclusively administered through the intermediated chain and not direct with the issuer regardless of any level of service on offer.

*Exclusively electronic transactions*

Notwithstanding our repeated position that all transactions with the UBO must be handled through the intermediated chain and thus not direct with the issuer we welcome a legal requirement for any equity or cash distributions, throughout these intermediated chains, to be made exclusively by electronic means – i.e. no use of cheques and no paper work.

At some points the report appears to imply that distributions are to be made direct from the issuer to the UBO. We would like to be very clear that this is not at all practicable and even impossible in many cases where it would, for example, contravene the legal parameters of international structures; or be non-compliant with the contractual terms of long established and stable intermediary agreements. We reiterate the point that the chain structure is essential for data, rights and transaction management and must be preserved. We would be very happy to discuss detailed examples if that were of use to help articulate this point.

We thank you again for the efforts of the Digitisation Taskforce, and for the opportunity to engage and to share our perspectives. We are looking forward to your final recommendations and remain available to provide the perspectives of our membership on behalf of the I00 Group of Finance Directors.

Yours sincerely,

Main Committee of the Hundred Group