Digitisation Taskforce

Final Report

July 2025

TABLE OF CONTENTS

Page

Introduction....3

Objectives of the Taskforce....5

Summary of feedback in response to the Interim Report....5

Summary of our recommendations....10

Final Recommendations of the Digitisation Taskforce....14

Bill of Shareholder Rights....24

Now vs then – the rights of certificated shareholders now and UBOs holding via the improved intermediated system following Step 2....25

Indicative Timeline of the Final Recommendations of the Digitisation Taskforce....26

Legislative Changes Required....27

Summary of Responses Received to the Interim Report....32

Appendix 1: Glossary of Terms....48

Appendix 2: Terms of Reference....51

Appendix 3: List of Respondents....52

Appendix 4: The Models Proposed in the Interim Report....53

Introduction

The Digitisation Taskforce was established with two main aims - to drive forward the full digitisation of the UK shareholding framework by eliminating the use of paper share certificates, and to improve the UK's intermediated system of share ownership. These are important goals which will help UK capital markets become more modern, efficient and transparent, while improving the service that shareholders receive. We published an interim report in July 2023 with some initial proposals and received strong engagement from a wide range of stakeholders on these. Since then we have been reflecting on the feedback gathered and conducting further engagement to shape our final recommendations, which we now present in this report.

Digitisation is something that people have tried to solve before (as noted and detailed in the Interim Report). We are much better placed to solve this now with the benefit of modern technology, as well as a much broader acceptance of digitisation in many aspects of how society operates today. We also benefitted from observing what has been achieved in the EU through the Shareholder Rights Directive, as well as steps underway in other jurisdictions, notably Hong Kong, to move towards an Uncertificated Securities Market.

It is therefore time that the UK works proactively to take the necessary steps to implement digitisation across the market. This report sets out what these steps should be and the forward process to deliver them.

Thank you to all of the respondents to the Interim Report and to all those who participated in the roundtables we have held. We received approximately 3,300 responses and held scores of meetings with shareholder representative bodies, registrars, listed companies and intermediaries; we are grateful for the high levels of engagement from so many parties.

It was always clear that digitisation of shareholder rights is a complex area of historical, legal and practical issues, with differing strongly held views, which affects different interested parties (for example registrars, shareholders, investors, companies, lending banks). This report seeks to propose an approach which balances these different views, achieving modernisation of the UK shareholding framework while ensuring that shareholders can exercise their rights effectively and efficiently. We have listened closely to the feedback received from the interim report when putting together our updated recommendations.

The implementation of the proposals set out in this report will modernise the UK's financial markets, enhance competitiveness, and deliver growth in alignment with the government's broader capital markets and growth agenda. This transformation is not just about moving away from paper share certificates, it is about re-imagining the current public market shareholding framework. This should make it more efficient for companies that use those markets, such as by lowering costs and improving communications processes. It should also empower investors, in particular through facilitating easier access to expression of rights and trading for certificated shareholders. This should ultimately encourage retail investing, increasing confidence in the means of gaining access to wealth through investing as well as saving, thereby contributing to securing financial futures across the economy.

Throughout the digitisation process, it will be important to protect the interests of investors, including vulnerable and older investors, and ensure their needs are taken into account. For example, we have recommended that there should be an 'opt-in' to receive hard copy documents from companies where required.

I would like to say thank you to all those who wrote to and met with us in the course of writing this report. This is a hugely complicated area, with many strongly held views, and I am hugely grateful to them all for the time and thought that they brought to the process and for the help they gave in refining our thinking.

I would also like to thank Mark Austin, as well as latterly Chris Horton, as the fellow members of the Digitisation Taskforce, for their help, guidance and support both in our research work and in writing our reports.

We have a real chance now to move the UK materially forward in the process of digitisation and I hope that this report finally helps to do that and in a timely fashion.

Sir Douglas Flint
Chair of the Digitisation Taskforce
15 July 2025

Objectives of the Taskforce

The objectives of the Digitisation Taskforce, as set out in our terms of reference, were to:

1. Work with stakeholders across the financial services sector to build consensus on change, to:

    (a) Identify immediate and longer term means of improving the current intermediated system of share ownership. This will mean:

        (i) investors as beneficial owners are better able to exercise rights associated with shares which intermediaries hold on their behalf;

        (ii) issuers can identify and communicate more easily with investors as the underlying beneficial owners, including on secondary capital raising offers; and

        (iii) efficiencies can be identified to reduce costs and time delays in the existing system.

    (b) Eliminate the use of paper share certificates for traded companies and mandate the use of additional options to cheques for cash remittances.

    (c) Consider whether the arrangements for digitisation can be extended to newly formed private companies and as an optional route for existing UK private companies.

    (d) Consider new processes and technology and set out a long-term as well as short- and medium-term vision of how shares will be held, settled, and administered.

2. Develop a timetable and plan for the implementation of changes, and support progress.

3. Engage with the government and regulators on progress and advise on any legislative, regulatory or other changes that will be required to support the programme.

At the outset we believed that it would be important to set guiding principles which we would use to assess the views of parties we consulted. We concluded in our Interim Report that the following perspectives should be given precedence over others:

1. The views and interests of issuers.

2. The views and interests of the ultimate beneficial owners ('UBOs').

3. That there should be transparency in relation to whatever arrangements exist in intermediating issuers and UBOs.

Summary of feedback in response to the Interim Report

In the responses to the Interim Report and in our subsequent meetings we found:

1. Almost universal support for the removal of paper shares and paper processing for trading, settlement and record keeping – indeed many participants urged us to go further than our terms of reference to recommend changes to the Companies Act that would reset default communication to being electronic communications, either through the intermediation channels or through direction to an issuer's website; such a change was encouraged both to reduce issuer

costs but also to eliminate the environmental waste occasioned by disposal of bulk document distributions that were not of value to UBOs. We return to this later in this report;

2. Strong support for – in tandem – modernising and harmonising the communications protocols linking companies and UBOs;

3. Strong support for – in tandem – improving the efficiency of making payments to shareholders through mandating electronic payments;

4. A strong desire that retail investors should not have the ability to exercise their shareholder rights reduced by the digitisation of remaining paper shares;

5. A strong desire to modernise and improve the competitiveness of UK markets for listed companies in particular – feeding into the wider narrative of making London "match fit" again for attracting and maintaining the listings of successful companies;

6. In parallel with this, strong encouragement not to mandate a structure that could make the UK a less attractive jurisdiction in which to list or to impose restrictions on a UK corporate vehicle that could encourage corporate entities to choose a different domicile; and

7. No desire to mandate digitised securities for private companies at this point in time.

There were, however, a variety of views on the most appropriate architecture of the prospective fully digitised infrastructure and a number of important legal, technical and practical issues were raised which addressed specific challenges that certain companies or individuals could or would face. We have not sought to resolve them fully in this final report, rather to recommend a direction of travel and what the next steps should be, which will include the creation of a Technical Group as soon as possible to consider how to further develop and implement the recommendations and identify practical solutions to the issues identified. We have set out a fuller assessment of the feedback we received later on in this report.

As stated in the Interim Report, the two leading models proposed to give effect to the dematerialisation of certificated shares were the so-called 'Model 1' (creation of digitised shareholder registers outside the central securities depository (CSD) to replicate current registers for certificated shareholders - this would be a new structure in the UK) and 'Model 3' (all shares being held through a chain of intermediary nominees in the CSD, which in the UK is CREST, operated by Euroclear United Kingdom and International (EUI) – which is the way that the vast majority of listed securities in the UK are currently held[1]).

For the purposes of this final report, we mainly refer to Model 1 as the "digitised share register" and to Model 3 as the "intermediated securities chain".

It is worth bearing in mind the main categories of shareholders in listed UK companies:

A. Institutional investors. These will almost invariably hold shares through custodian banks.

B. Smaller professional investors. These investors may rely on their broker or securities intermediary for custodian services, which are provided as part of the overall package of brokerage/custody services.

[1] Source: For example, Shell told us in their response that CREST as the UK CSD already covers 99.3% of its issued share capital, including the bulk of its global retail investors (96.7%) and even its UK resident retail investors (89%). Certificated shareholders represent just 0.7% of its issued share capital and the corporate sponsored nominee represents just 1.7%.

C. Individual investors who own shares indirectly. These investors typically deal through online platforms provided by retail intermediaries, including brokers. The provision of nominee services is generally part of such platform/broker services.

D. Some individual shareholders may elect to administer their own holdings. The majority of these are likely to obtain and retain share certificates from the issuer's agent, namely the registrar, although a few will be direct or sponsored participants in CREST.

E. There will also be a number of shareholders in respect of whom no details are known, including those who have forgotten (or never knew) of their status as such. These are "lost" or "untraced" shareholders and could be either certificated or intermediated.

The vast majority of shares in listed UK companies by value fall into category A. However, feedback received in the responses indicated that the largest number of shareholders on most company's registers fall into categories D and E.

Categories A, B and C fall into the "intermediated securities chain", which generally includes the provision of nominee services whereby the intermediary is the registered legal owner of the shares with the economic interest accruing to the ultimate beneficial owner. In category A the shareholder rights are in most cases exercised by the intermediary as the registered legal owner, in categories B and C these rights may be exercisable by the intermediary as the registered legal owner or the UBO depending on the associated contractual arrangements or may simply not be exercisable. A principal objective of this Taskforce was to make the exercise of shareholder rights easier and more accessible. Intermediary services are provided on a commercial basis for a fee in a competitive market. For a clear explanation of the intermediated securities chain, please see linked below a helpful summary paper published by the Law Commission[2].

The focus of the responses received and the subsequent meetings has been on whether to require all certificated holders to move into the existing intermediated securities chain (Model 3) or to move them (without action on their part) onto a digitised share register (Model 1), as either a final or an initial step.

The primary challenge which is posed by digitisation is how to modernise the system of record of UK share ownership in a way that minimises the impact on certificated shareholders. The ambition is to move certificated shareholders into a fresh structure/arrangement which enables them to continue to exercise their rights effectively, and indeed improves both access to these rights and the efficacy of the communication channel between issuers and UBOs. The importance of this objective was made very clear to us in the various responses received and in subsequent meetings, particularly by retail shareholders and the trade bodies which represent them. Their responses consistently mentioned that in their view they routinely experience poor service from nominee service providers. They told us that they have routinely experienced barriers to full participation in corporate actions and in AGMs as beneficial owners, with in their view unacceptable delays in correspondence, considerable cost, or an absence of relevant shareholder services being common problems.

It is worth noting that holders of certificated shares in UK listed companies are concentrated in a few companies - nearly 50% of certificated shares in the UK (average holding value £4,500) are in just five companies: Lloyds Banking Group, aberdeen, National Grid, BT and Centrica[3].

The feedback we received confirmed that many of these holdings are a legacy of privatisations and demutualisations and that the number of certificated individuals on UK listed company share registers is steadily reducing. Given the timing of when such corporate events took place, certificated shareholders tend to be older in age terms. This highlighted to us the necessity for a period of clear

[2] Intermediated securities: who owns your shares? Summary of the Law Commission's scoping paper

[3] Source: Capita Economics

communication so that certificated shareholders would be reassured that their interests were not being subjected to detriment, and were in fact being improved.

In the responses to the Interim Report and in the subsequent meetings, many parties stated that, whilst digitisation in its narrowest sense (removing paper share certificates) is essential for modernising UK equity capital markets, it needs to go hand in glove with removing cumbersome friction points in the day-to-day administration of listed companies – pointing to many cumbersome, expensive and inefficient modes of shareholder communication, such as the distribution of printed materials including notices of general meetings and of annual reports. Many respondents advocated that our report should recommend removing such friction points where they are today required by law with a view to facilitating more effective communication with UBOs, with the objective of increasing shareholder participation in the companies they invest in and thereby helping to improve and strengthen the UK's equity culture – i.e. a "digitised share model" PLUS a "digitised communications model". We agree with this and address what would be required in our recommendations.

Continuing with the theme of broadening the digitisation of interactions between companies and their shareholders, many respondents strongly supported the recommendation in the Interim Report mandating improvements in the process for making payments to shareholders, eliminating so far as possible shareholder payments by cheque. Removing a confusion that arose in some responses to the Interim Report, such distributions would flow through the intermediary chain with nominees distributing onwards to sub-nominees and ultimately to UBOs.

Respondents stated that moving to a fully digitised shareholder communication model should result in system-wide significant cost savings and improvements in efficiency by removing physical movement of paper and enhancing communication by reaching UBOs digitally, all of which would reduce the substantial amount of paper flowing through the system and reduce costs for listed companies which we were told by many companies remain significant.

Respondents also expressed a strong desire to use this opportunity to improve communications protocols for both currently certificated shareholders and also for UBOs in the intermediated securities chain.

This final report does not cover private unlisted companies (even though it was in the terms of reference); its focus is on companies whose securities are traded publicly. Responses received and subsequent feedback in our meetings suggested there was no appetite for extending these proposals to private companies and indeed it was suggested this could be detrimental to the many small companies in this country by imposing unnecessary costs on them.

This report contains our final recommendations (including an indicative recommended timeline for implementation), a summary of responses received to the interim report and a list of the legislative changes that we believe are necessary to implement the final recommendations. The identification of legislative changes has also drawn extensively on the work of the Law Commission in its scoping report on intermediated securities in 2022[4], as well as on the written responses received by the Taskforce.

As stated above, shareholders, listed companies, investor organisations, corporate service providers and adviser bodies were overall overwhelmingly in favour of removing paper shares. There were differences of views on the most appropriate model, however. Most of the issuer respondents and their representative bodies were in favour of requiring all shareholders to hold their shares through the intermediated securities chain – i.e. Model 3 in the Interim Report. A clear majority of issuers, endorsed by the GC100 Group, have a strong preference for this model but highlighted circumstances where it may not be possible (e.g., companies with shares on branch registers) or desirable (e.g., companies

[4] Law Commission – Intermediated securities: who owns your shares? A scoping paper

seeking overseas listings where the overseas authorities do not permit/facilitate links between the local CSD and CREST).

A number of stakeholders were in favour of the digitised share register – i.e. Model 1 in the Interim Report. Bodies representing individual shareholders were concerned that digitisation could remove or restrict access to the rights of certificated shareholders or come at a cost not currently borne by those shareholders, but if that was not the case then there was less concern over the model to be used.

Those not in favour of a digitised share register said that it maintained the expense (for listed companies) of maintaining a separate share register and perpetuated frictional costs that would arise from movement between the digitised register and the CSD. Legal concerns were raised that steps would need to be taken to find a way to perfect the taking of security over digitised shares, which could be problematic from a legal point of view; a subset of this would be the need for existing security arrangements, where the security has been effected by the lender having custody of the share certificate together with a signed transfer form, to have to be revised. Registrars we consulted with told us that it would be possible to set up a system to address such issues and this is therefore an area we include for further consideration by a Technical Group to resolve.

Those not in favour of moving all shareholders to an intermediated securities chain raised objections that current certificated shareholders would likely have to accept costs that they did not currently incur in order to have their shares held through an intermediary and would lose their direct rights as shareholders if they are not named on the share register (these legal differences are explained in the Law Commission scoping report on intermediated securities in 2022 at paragraphs 1.23 to 1.27 in particular).

In addition, doubts were expressed about the willingness or ability of intermediaries to be able to onboard so many shareholders (with the mandatory KYC/AML and other checks required) and whether they would be able (for legal and regulatory reasons as well as due to their business models) to onboard overseas shareholders.

We were also struck by the logistical challenges in asking over a million retail certificated shareholders to go through KYC/AML processes and present their share certificates to find a nominee platform that would accept them; many would be unattractive to some intermediaries, given the modest size of their shareholdings and their likely limited activity going forward. We were concerned as to the reputational damage to issuers from instructing their small but loyal certificated shareholder base to seek nominee services and to potentially have to subject themselves to additional KYC/AML processes; we were also concerned that an adverse reaction from such shareholders could detract from the overriding benefits arising from the work of this Taskforce. On the other hand, individuals with certificated shareholdings in a number of companies may well find consolidating their interests within a single nominee more attractive than having to maintain connections to a number of digitised share registers or groups thereof, where the major registrars offer pooling arrangements for registers they maintain.

A number of companies with overseas listings, together with their registrars, explained that mandating Model 3 would be incompatible with their overseas listing (notably impacting companies with listings of shares in the US and Hong Kong) - for a mixture of legal, operational, regulatory and tax reasons. Companies with overseas branch registers, notably in Hong Kong, had particular concerns and we note that this group includes three of the UK's largest financial institutions, namely HSBC, Standard Chartered and Prudential. We know that discussions are underway to improve the inter-operability of international settlement systems but given these improvements will not be ready in the short term, we cannot yet recommend a wholesale immediate move to the intermediated securities chain even though that is our ultimate recommended endpoint.

Respondents were generally not in favour of issuers having discretion to choose the timing of the transition, preferring a "big bang" digitisation – i.e. the move should take effect on a single date,

following sufficient notice and publicity, rather than relying on piecemeal implementation by individual companies.

With regard to the timing of implementation, respondents offered a wide range of possibilities from 18 months to eight years. The timeline will depend heavily on the model chosen and the time needed to implement improvements to the intermediated system, which is difficult to foresee as some elements may require primary legislation.

Summary of our recommendations

In framing our conclusions, we drew on our initial statement of philosophy, namely, to give precedence to the interests of issuers and UBOs. We reflected on whether, if we were starting with a clean sheet of paper, we would seek to have all shareholdings held within central securities depositories or offer alternatives. We also acknowledged that none of the proposed models in our Interim Report would be able to fully satisfy all stakeholders.

After reflecting on the feedback we received to our Interim Report, we continue to believe that an ultimate move to a fully intermediated system of shareholding would be the right model for the UK in the longer-term. A move to 'Model 3' would:

- Remove frictions and costs which exist as a result of the need to maintain multiple share registers
- Modernise UK financial markets, making them more efficient and transparent
- Drive innovation and competition between trading platforms, and in turn encourage retail participation in capital markets
- Improve the ability for companies to raise funds

Overall, these benefits would contribute to the government's vision for modern, digital capital markets that stimulate growth and innovation.

However, it was clear in the feedback we received that improvements are needed to the intermediated system before all shares can be transferred into it. In particular, individual shareholders who responded to the Interim Report were concerned about the ability for retail shareholders to exercise their rights under the intermediated system, given that UBOs are not the legal owner of their shares. Registrars were also concerned about the disruption and costs that would be involved in moving millions of shares into Model 3. These improvements will take time, particularly as some will require the government to bring forward primary legislation. A move straight to Model 3 may therefore risk losing momentum for the immediate goal to remove remaining paper shares.

We therefore concluded that there should be a staged process, with a temporary 'Model 1' approach pursued initially to achieve the removal of remaining paper shares while replicating existing arrangements for certificated shareholders. This would be done with the objective of moving to a fully intermediated securities chain model after the rights of UBOs and the intermediated system generally have been enhanced and friction points reduced. The final move to 'Model 3' should also be subject to a small number of exceptions (e.g. for companies with international listings if interoperability between CSDs has not improved), as outlined below in our final recommendations.

We have set out below the three steps that we envisage for the digitisation process.

Step 1: removal of paper shares and establishment of digitised registers

As a first step, following a period of issuer communication to existing certificated shareholders, these shareholders would be advised that their interests would henceforth be reflected solely within the

digitised register already administered by the issuer's registrar. This should include communications to try to alert shareholders who hold certificated shares but who are not currently recorded on the register to contact the registrar to ensure their shares are recorded. Issuers would no longer be permitted to issue physical share certificates, certificates would no longer have any currency and would no longer be required to transact share transfers or sales. It is already the case that the share certificate itself is simply a physical representation of what is recorded in the issuer's share register and the interest it represents is serviced by the issuer's registrar (through dividends etc) without recourse to the physical certificate, save as a matter of additional due diligence when such interests are to be transferred or sold.

We recommend that, during the first stage of the digitisation process, shares held on a digitised register are serviced as they are currently, ensuring that currently certificated shareholders will receive the same service and ability to exercise their shareholder rights as they do now.

We recommend that the government establishes a Technical Group of relevant experts as soon as possible to determine an implementation plan for this first stage, including an appropriate 'go-live' date. This date should balance the need to generate short-term momentum for digitising remaining paper shares with the need to appropriately communicate this move to all stakeholders. We would suggest that a date no later than the end of 2027 could be suitable to achieve these aims. The Technical Group should work closely with all relevant stakeholder groups, particularly registrars and issuers, to establish the processes needed to remove remaining paper shares by this date and to communicate the move to all stakeholders.

The Technical Group should consider how the needs of vulnerable and older investors are being accounted for when considering how digitisation should be implemented. This is particularly important when deciding how best to transition shareholdings into the intermediated system in Step 3.

Step 2: preparing for a fully intermediated system

Step 1 will achieve the first aim of this Taskforce – to remove remaining paper share certificates in the UK. But we believe digitisation should transcend the simple conversion of paper processes into digital formats. An equally important goal was to improve the intermediated system as a whole, and to address broader challenges such as increasing retail participation in fundraising and voting.

The true potential of digitisation lies in its ability to enhance these processes, making them more accessible, transparent, and efficient. By embracing a bold and ambitious approach to digitisation, the market can unlock new opportunities for growth and innovation. It is already apparent that since we commenced our work, competition amongst the platforms that serve retail shareholders has led to service enhancements, notably regarding access to voting, demonstrating the power of competitive forces in an attractive market segment. A full move to an intermediated model will also reduce costs for issuers, who will no longer have to pay to service shareholders on a separate register.

In order to enhance the UBO experience in the intermediated securities chain we are recommending:

- A comprehensive package of measures to improve communications between companies and UBOs in the existing intermediated securities chain (Recommendations 5 and 7)
- That payments to shareholders move to an entirely digital basis (Recommendation 6)
- That there should be a 'baseline service' which intermediaries should have to provide to all shareholders, which should include extending certain provisions of the Shareholder Rights Directive II to UBOs (Recommendation 8)
- Further measures to enhance the rights of UBOs, such as facilitating confirmation that their votes have been received and counted (Recommendation 9)

Most of these measures are for the government and/or the FCA to take forward through legislation or regulator rules, while the Technical Group should consider what changes industry participants will need

to make to implement the recommendations in practice and set a plan for delivering these. For example, intermediaries will need to consider how they can deliver the 'baseline service' which we recommend, while changes will have to be carefully coordinated with EUI as the operator of CREST.

It is important that retail shareholders know they will be able to exercise their rights effectively and efficiently when moving to the improved intermediated securities chain. We have therefore produced a 'Bill of Shareholder Rights' which sets out the general rights that should be provided to all shareholders, including UBOs as part of the baseline service, which the full move to Model 3 should be contingent on. This can be found on page 24.

We recommend that the government, the FCA and industry begin taking forward our programme of reforms to the intermediated system as soon as possible. We acknowledge that many of these recommendations will require primary legislation, so they will take some time to implement and will be dependent on Parliamentary time, and that the Technical Group will need time to consider what is required by industry participants. We have therefore not recommended a set timeframe for these changes, but we suggest that the government should aim to implement them within this Parliament.

Step 3: all shares transition into the intermediated securities chain

The final stage would be to move to a fully intermediated shareholding system. We recommend that, once the Step 2 changes are implemented, there should be a process for moving all remaining shares into the intermediated system. To do this, the government could legislate to make the digitised registers a 'one-way street', where shares can only flow out of the registers and not into them – i.e. no new shares could be created within these registers. Outward flow from the registers would arise when a UBO nominates a nominee into whom their interests are to be transferred, as well as upon any shareholder action, for example taking scrip / drip dividends (this should not include regular dividends) or transferring / selling any portion of the registered holding; at this point the shareholder would be required to join the intermediated securities chain to execute their wishes. We believe this is the right approach, as we wish to see shareholders move to the intermediated securities chain over time as technology improves the UBO experience and system-wide costs reduce. The Technical Group will set out the preferred approach as part of its implementation plan, which should consider how the needs of vulnerable and older investors are being accounted for.

So that the digitised registers do not then become depositories of dormant small shareholdings we recommend that the Technical Group considers whether a 'sunset date' should be set for all digital shares to be held in the improved intermediated system in future, based on the progress made towards this end state. If the Technical Group decides this is necessary, we propose that shareholders remaining on the issuer's digitised register could have their share interests dealt with in one of the following ways:

1. Transferred to a Company Sponsored Nominee if the issuer has decided to retain or establish such a nominee for this purpose.

2. Transferred to an omnibus nominee sponsored by participating issuers and established for such a purpose, if this is thought desirable.

3. Sold, with the proceeds credited to the bank account of the UBO.

4. With regard to untraced/uncontactable interests, sold with the proceeds dealt with through the issuer's own arrangements for 'lost' shareholders or transferred to a central 'dormant asset reclaim fund', either an existing such fund or one set up for that purpose under regulatory or legal oversight.

As we note in the Recommendations section, these options are indicative suggestions at this stage and will need to be considered further by the Technical Group, the government and regulators – particularly

option 4 given that it requires a new dormant asset fund to be set up, and for a threshold to be set for classing shareholders as uncontactable.

We are also recommending as part of this process that the opportunity is taken to unlock 'frozen' share interests held within Company Sponsored Nominees ("CSN") where the UBO is untraceable. Such interests today cannot be released under the issuer's 'lost' shareholder provisions and are effectively lost forever. We recommend that, as part of the digitisation 'clean-up', such interests are rematerialized (i.e. certificated) and then such certificated interests can fall to be dealt with as recommended above for other untraced / uncontactable interests.

Given that the improvements we are recommending to the intermediated system in Step 2 will need time to implement, we cannot recommend a definitive timeframe for the ultimate move to 'Model 3' yet. As noted above, we recommend that the government aims to complete step 2 within this Parliament before taking any measures to transition shares into the intermediated system. Before this happens, and during the process, regular notice should be given to members on digitised registers about the digitisation process and how it affects them.

We recognise that transfers to a nominee of choice would today require the accepting nominee to conduct/refresh KYC/AML due diligence. We have queried whether such due diligence is strictly required as the underlying UBO is already being serviced within the UK's capital markets and in most cases the servicing will involve transfers to a UK bank account whose owner will have gone through such KYC/AML checks. We recommend that the government considers if it might be possible, for the sole purpose of this dematerialisation exercise, that a waiver from routine KYC/AML checks be given to the accepting nominees to facilitate what is a public policy objective.

The complexity of overseas branch registers and companies with multiple listings will remain and we cover this in more detail below. Issuers with such arrangements will be unable to fully adopt the recommendations within this Final Report until such time as there are established links between the UK and relevant overseas CSDs.

Below we have set out each recommendation in more detail, including a suggested timeline.

Final Recommendations of the Digitisation Taskforce

As set out above, the Taskforce recommends a staged process to reach an end state of all shareholders in the UK holding shares through an improved intermediated securities chain.

After an appropriate communication period, as a first step, all existing certificated shareholders should move to a digitised share register that sits outside the intermediated securities chain; essentially this would be a digital version of the share register they currently are included within and would maintain the service they currently receive. At this point, paper shares should become null and void, and no new paper shares should be permitted to be issued.

In the meantime, the government, FCA and industry should take forward our recommendations to improve the intermediated securities chain to ensure that shareholders can exercise their rights effectively and efficiently. Then, once these improvements have been made, shares should transition towards a fully intermediated system. This could entail the digitised registers becoming a 'one-way street' with no new entries permitted, which would create impetus towards this end state. Based on progress towards this end goal, the Technical Group should consider whether it is necessary to set a 'sunset date' for all remaining shares to move into the intermediated securities chain.

Certain limited exceptions to holding through the intermediated securities chain would be permitted, for example for UK companies with overseas listings, until such time as solutions, if possible, have been found to address the specific issues that they allow for.

The final recommendations of the Taskforce are set out below, organised into the three steps above.

Step 1: removal of paper shares and establishment of digitised registers

- **Recommendation 1: Physical share registers should be replaced by digitised share registers, and physical share certificates with entries on these digitised registers. There should be a single implementation date for this move, before the end of 2027**

  Digitised share registers should be made mandatory for in-scope companies. Regulations should be made under section 786 of the Companies Act (together with section 788)[5] to specify that the register of members required under section 113 of the Companies Act must be kept only in digitised form in the case of all UK incorporated companies whose shares may be purchased and traded by the public in the UK. The government should also consider whether changes to the Uncertificated Securities Regulations are required to accommodate the digitised registers. Certain time limited exceptions should be made, for example in relation to UK plcs with overseas listings[6], which should be permitted to continue in their current form (subject to the change proposed in Recommendation 12 so as not to prejudice listings by in scope companies in certain overseas territories or countries) and also for example in relation to employee share schemes.

  These regulations should also specify that in scope companies which are required to keep a digitised share register are prohibited from issuing a physical share certificate as currently

[5] These Companies Act provisions allow the making of regulations requiring companies, or any designated class of companies, to adopt arrangements under which title to securities is required to be evidenced or transferred (or both) without a written instrument.

[6] UK-registered companies which conduct business in certain overseas countries and territories are permitted by s. 129 of the Companies Act to set up overseas branch registers of members resident in that country and pursuant to Section 133(3) of the Companies Act transfer of shares on such a register executed outside the United Kingdom are exempt from stamp duty.

required by the Companies Act. Such legislation should also specify that any existing physical certificates in such companies are no longer *prima facie* evidence of a shareholder's title to the shares (section 768 of the Companies Act) as the digitised share register will constitute the sole *prima facie* evidence of a shareholder's title to the shares.

The implementation of digitised share registers and the removal of share certificates should take effect on a single implementation date for all in-scope companies. We recommend that this should take place by the end of 2027.

- **Recommendation 2: A Technical Group should be established to finalise the digitisation process**

A small and focused Technical Group should be established as soon as possible to finalise the details of the process set out in Recommendation 1. It should comprise operational experts from relevant market stakeholders but with a leadership group of no more than eight people in order to keep the group focused and efficient.

In addition to a Chair, we suggest that the group should comprise representatives from each of the following constituencies:

- UK listed companies – two representatives, one of whom has a dual listing with a branch register
- Custodian
- Depositary
- Registrar
- Investors – one retail and one institutional representational body

and with observers from the government and regulators.

The remit of the Technical Group should cover:

(a) Working with the industry, and registrars in particular, to implement the move to digitised share registers. This should include establishing common operational standards, processes and systems to implement the move. Particular attention should be paid to security and liability issues identified in responses to the Law Commission report on intermediated securities in 2022 such as negligence and fraud and stamp duty and stamp duty reserve tax implications.

(b) Confirming the implementation date for the move to digitised registers, which we recommend should be no later than the end of 2027.

(c) Suggesting and implementing a solution to the legal technical issue identified by respondents relating to taking security over shares held on the digitised shares register (be that requiring such charged shares to be held through a nominee or otherwise).

(d) Communicating the move to digitised registers to all stakeholders, ensuring that they are aware of the timeline and how it affects them. This should include promoting understanding of the fact that there will be no change to the service shareholders currently receive, other than the fact that their paper shares will no longer be valid and their shares will be held on digital registers.

(e) Considering the actions required by industry participants as part of Steps 2 and 3 and setting a detailed plan for how these should be implemented. This should include considering what actions are required to transition shares into the intermediated system, as detailed further in recommendations 13 and 14.

- **Recommendation 3: The Uncertificated Securities Regulations ("USRs") should be amended as soon as possible such that shares of UK incorporated companies held on an overseas branch register can be held in dematerialised form**

  In order to facilitate, for example, UK incorporated Hong Kong listed companies such as HSBC, Standard Chartered and Prudential participating in the planned dematerialisation of companies' shares listed on the Hong Kong Stock Exchange starting in 2026, the USRs should be amended as soon as possible such that shares of UK incorporated companies held on an overseas branch register can be held in dematerialised form[7]. There will also need to be changes made to legislation in order to allow for the proper interoperability of dual Hong Kong and London listings on a digital basis. These additional changes are further detailed in the section below outlining the legislative changes required.

- **Recommendation 4: There should be better information provision as part of the move to digitised share registers**

  The 'required information' that is needed for a digitised share register should include the provision of email addresses and bank account details (accessible to the company only and not publicly available on the register) in order to facilitate improved digital communications with, and payments to, shareholders. Changes should be made to the "required information" under Sections 113A and 113B Companies Act, noting the power of the Secretary of State under Section 113C[8] to change the "required information" – to require the provision of an email address and bank account details of each shareholder on its digitised share register – and exclude such information from the power of inspection under section 114 -117 Companies Act, potentially through regulations made under section 120A Companies Act (power to make regulations protecting material).[9]

Step 2: preparing for a fully intermediated system

- **Recommendation 5: The ability for companies to communicate digitally with their shareholders should be made easier**

  The conditions imposed on electronic communications and communications by means of a website by provisions such as sections 1144 and 1148 of the Companies Act and Schedule 5 of the Companies Act should be removed. Company communications with shareholders should be deemed valid for all purposes if they are (i) sent to the shareholder in electronic form; or (ii) placed on an appropriate website, and the fact of that publication is communicated electronically to all shareholders for whom the company has an e-mail address or other form of

---

7 Currently, members of a company who hold shares in uncertificated form may not be entered as holders of those shares on an overseas branch register (paragraph 4 (4) of Schedule 4 of USRs 2001).

8 Note that these provisions were introduced by ECCTA 2023 but are not yet in force.

9 This would be similar to where any regulation is made under section 120A, a company would be required to refrain from disclosing any protected information that would, in the ordinary course, be available for inspection under sections 114, 115, 116 and 120. Consequential amendments have also been made to section 1087 of the Companies Act to clarify that any application or other document delivered to the Registrar under regulations made under section 120A must not be made available for public inspection.

electronic communication mechanism in place[1011]. However, to safeguard those who may favour physical documents, for example vulnerable and older investors, shareholders should have the option to "opt in" to receive hard copies from the company.

- **Recommendation 6: Payments to shareholders should have to be made electronically**

  Legislation should be brought forward to require in scope companies to make payments to shareholders by electronic means as a default position unless otherwise agreed between a company and a shareholder. The change to "Required Information" set out in Recommendation 4 to include bank account details aims to support the move to eliminate the need for cheque payments.[12]

- **Recommendation 7: A common communication language should be implemented for the intermediated securities chain**

  An SRD II equivalent common language such as ISO 20022 should be implemented in the UK to ensure faster and more consistent communications throughout the intermediated securities chain between UBOs and issuers. This will make processes under section 793 of the Companies Act, or (alternatively) processes for the transmission of information between companies and UBOs pursuant to the implementation of SRD II as extended to UBOs (see recommendation 8), more efficient and should also include an obligation on intermediaries (including those in third countries) to pass on communications until they reach the UBO.

- **Recommendation 8: Intermediaries should have to offer a baseline service to shareholders**

  There is no basis for statutory regulation of all parts of the pricing of the services that intermediaries should offer to shareholders and the Taskforce does not consider it an area where recommendations should be made.

---

[10] Under the current Companies Act, a company may only deliver communications in electronic form if the shareholder has agreed to that form of delivery, which agreement may be revoked (Part 3 Schedule 5 to the Companies Act). Similarly, a company may deliver communications by publishing information on its website, but doing so requires the company to obtain actual agreement from its shareholders or through a "deemed agreement" process which requires the satisfaction of certain conditions including the members of the company resolving that the company may communicate by means of a website (or the company's articles containing a provision to that effect) and the shareholders having been asked individually to agree that the company may communicate by way of a website and the company not receiving a response within 28 days of the request being sent (Part 4 of Schedule 5 to the Companies Act). Respondents have explained that this process for seeking agreement (or deemed agreement) for website communication is impractical and results in many paper communications still being sent, leading in turn to significant costs for companies.

[11] This recommendation would also involve:

- removing the right of shareholders to require the company to send hard copy versions of documents under section 1145 of the Companies Act. But the Company could still itself elect to send hard copies; and
- amendments to DTR 6 (applicable to issuers on a UK regulated market) which currently provide that if a company uses electronic means to communicate with shareholders, there are certain procedures with which it must comply (see DTR 6.1.8R). These include that the decision to use electronic means must be taken in general meeting and other requirements that reflect schedule 5 of the Companies Act.

[12] The Companies Act itself does not mandate the form of payments to be made to shareholders. The method of payment of dividends to shareholders is normally set out in a company's articles of association. The current model articles specify cheques as an acceptable form of payment to shareholders.

There should, however, be a baseline service that intermediaries have to offer to shareholders in the intermediated securities chain. As suggested by the Law Commission[13], certain provisions of the Shareholder Rights Directive II (SRD II) could be extended to enhance the rights of UBOs, rather than limiting these rights to registered shareholders. The primary advantages of this proposal would include a comprehensive approach that addressed issues related to information transmission, rights exercise, voting confirmation, and transparency of fees, while maintaining the benefits of the current intermediated system. Additionally, the implementing regulation accompanying SRD II offers standardisation in shareholder identification and rights facilitation, potentially streamlining existing procedures under the Companies Act 2006.

We propose that this baseline service should be provided on an "opt out" basis where it would be mandatory for the intermediary to provide this unless the UBO opts out.

In particular, these changes should result in obligations on intermediaries to:

- Transmit information about the identity of UBOs to companies without delay (equivalent to Article 3a SRD II). The information would include: (a) the UBO's name and contact details (including full address and, if available, email address) and, if the UBO is a legal person, its registration number or, if unavailable, its unique identifier such as legal entity identifier; (b) the number of shares held; and (iii) if requested by the company, the categories or classes of the shares held or the date from which the shares have been held.

- Pass on to UBOs through the intermediated securities chain all the information from the company that allows UBOs to properly direct the exercise of shareholder rights and transmit to the company the information received from UBOs in relation to the exercise of such rights, in each case, without delay (equivalent to Article 3b SRD II). Information must be sent between intermediaries without delay, unless it can be sent directly to the UBO.

- Facilitate the exercise of shareholder rights by UBOs, including the right to participate and vote in general meetings (equivalent to Article 3c SRD II). An intermediary can do so by enabling the UBO either to exercise the rights or to instruct the intermediary to exercise the rights. UBOs must be able to obtain confirmation that their votes have been validly submitted for recording in the poll being conducted by the company.

- Disclose fees for the provision of these baseline services regarding the identification of UBOs, transmission of information and facilitation of the exercise of shareholder rights, which must be non-discriminatory and proportionate in relation to actual costs (equivalent to Article 3d SRD II).

Such obligations could be imposed through a variety of mechanisms, including primary legislation such as the Financial Services and Markets Act 2000 ("FSMA") which could impose the obligation or provide the government with a power to impose the obligation by statutory instrument. Another option is to provide a power to the FCA (through FSMA) to regulate on these matters. Parties should not be allowed to contract out of this obligation. This is in reality just an expansion of the basic principles of treating customers fairly.

We recommend that the government and the FCA review how these requirements could be introduced through legislation and/or FCA rules.

[13] "Intermediated securities: who owns your shares? - A Scoping Paper" / Law Commission, 11 November 2020.

We recommend that, in the course of implementing the SRD II procedures concerning communications between companies and UBOs, an evaluation should be conducted to determine whether the processes under section 793 of the Companies Act would then become redundant. During this evaluation, the Technical Group should assess the necessity of retaining certain elements of the section 793 process, such as:

- The ability for shareholders holding at least 10% of the voting rights to compel the company to issue a section 793 notice.
- The obligation for the company to maintain a section 793 register.
- The requirement for the company to make the section 793 register available for inspection.

These elements are not currently addressed under SRD II and should be carefully considered for their potential continued relevance.

- **Recommendation 9: Other measures should be taken forward to enhance ultimate beneficial owners' rights**

  In addition to the above proposals to improve the intermediated securities chain, we recommend implementing the following targeted measures to enhance ultimate investors' rights:

  - *Facilitate confirmation to ultimate investors that their votes have been received and counted by the company*

    We recommend undertaking legislative and regulatory reform to enable ultimate investors to obtain confirmation that their votes have been validly received and/or counted. Presently, the Companies Act provisions that allow for confirmation of voting[14] are, broadly speaking, limited to a company's members or members' proxies.

    As suggested by the Law Commission in their scoping paper, the Companies Act should be amended to include an obligation on all companies to provide, upon request, information to members which enables them to determine that their vote has been validly recorded and counted. There would be a corresponding regulatory obligation on the member, and other intermediaries in the chain, to pass that information to other intermediaries or to the ultimate investor, upon request and within a reasonable time. We recommend also considering the similar arrangements in Article 3c SRD II in relation to the recording and confirmation of votes.

  - *Removing the "headcount" test from the Companies Act provisions relating to schemes of arrangement*

    We recommend removing the headcount test from section 899 of the Companies Act such that a court could sanction a scheme of arrangement where there had simply been approval by a number representing 75% in value of the members or creditors of the company – without requiring that the scheme also be approved by a majority in number of the members or creditors.

    The headcount test is widely considered "irrelevant and burdensome" [15] particularly in the context of intermediated holdings, given that ultimate investors are not included in

[14] Sections 360AA and 360BA of the Companies Act.

[15] See the Law Commission scoping paper, Chapter 4

the test and retail investors having their views expressed through a more limited number of intermediaries.

The approval of a scheme by members or creditors holding 75% in value (regardless of how many members voted) would allow ultimate investors to have their views represented through their intermediaries.

- *Amending section 98 of the Companies Act regarding an application to the court to cancel a resolution to re-register a public company as a private company*

  Section 98 of the Companies Act should be amended to facilitate the ability of ultimate investors to bring a court application to cancel a resolution to re-register a public company as a private company.

  As recommended by the Law Commission, this provision could be reformed by removing the bar on applications from "a person who has consented to or voted in favour of the resolution"[16]. This amendment would ensure that an ultimate investor's intermediary (who may have voted both in favour and against such resolution to reflect the voting preferences of different ultimate investors) could bring an application to cancel the resolution on behalf of the ultimate investor.

  Alternatively, section 98 could be amended to allow an ultimate investor to bring an application. This alternative solution could be considered alongside the other proposals to enhance the ability of a company to identify its ultimate investors (see Recommendation 8's proposals to improve the section 793 process and to implement SRD II with respect to UBOs).

- *Clarifying statutory provisions that allow investors to claim for compensation in connection with published information*

  Section 90A and Schedule 10A of FSMA allow persons who have suffered loss as a result of a misleading statement or dishonest omission in certain published information relating to publicly traded securities, or a dishonest delay in publishing such information, to bring a claim for compensation against the publicly traded issuer.

  In light of commentary around the lack of clarity in the legislation[17], we recommend amending these provisions to place beyond doubt that ultimate investors in an intermediated securities chain have standing to bring a claim under section 90A of FSMA.

- *Addressing other legislative provisions that disadvantage holders of intermediated securities*

  We recommend adopting the Law Commission's proposal[18] to review legislation such as the Companies Act and FSMA to identify other provisions which limit the rights of ultimate investors, either inadvertently or as a result of previous policy decisions which should now be reviewed. Amendments could be suggested once such provisions have been identified.

---

[16] Section 98(1) of the Companies Act.

[17] SL Claimants v Tesco plc [2019] EWHC 2858 (Ch), [2020] Bus LR 250

[18] See paragraph 5.75 of the scoping paper

- **Recommendation 10: The government should consider if it might be possible for the sole purpose of this dematerialisation exercise that a waiver of KYC/AML checks be granted**

  We recognise that transfers to a nominee of choice would today require the accepting nominee to conduct/refresh KYC/AML due diligence. We have raised with the government and the FCA whether such due diligence is strictly required as the underlying UBO is already being serviced within the UK's capital markets and in most cases the servicing will involve transfers to a UK bank account whose owner will have gone through such KYC/AML checks. We have asked the government to consider if it might be possible for the sole purpose of this dematerialisation exercise that a waiver from standard KYC/AML tests be given to the accepting nominees to facilitate what is a public policy objective.

- **Recommendation 11: Steps should be taken to facilitate UK digitisation for Jersey, Guernsey and Isle of Man companies admitted to trading in London**

  As at 30 June 2025, there were 52 Jersey incorporated companies admitted to trading in London (36 on the Main Market and 16 on AIM) and 83 Guernsey incorporated companies admitted to trading in London (65 on the Main Market and 17 on AIM) as well as 15 Isle of Man incorporated companies admitted to trading in London (five on the Main Market and 10 on AIM), making them the most popular jurisdictions after the UK for the choice of listing vehicle in London. Furthermore, they are unique in that companies incorporated in Jersey, Guernsey and the Isle of Man are able to trade their shares directly in CREST (rather than in the form of CREST depositary interests which are needed for all other overseas issuers). The Taskforce would like to see such a large group of London traded companies move to a digitisation model, whist recognising the separate jurisdictions of Jersey, Guernsey and the Isle of Man over their own company law matters. Accordingly, the Technical Group should liaise with industry bodies in Jersey, Guernsey and the Isle of Man to share the UK digitisation model and explore how a similar process could be implemented there.

- **Recommendation 12: Steps should be taken to facilitate the digitisation of UK plcs with other international listings**

  The Technical Group should consider the impact of the UK move to digitisation on UK companies with international listing structures. These have to take account of a range of national corporate and securities laws as well as national and international tax arrangements, domestic and international listing rules as well as different market structures and technical matters.

  We would like the Technical Group to liaise with CSDs, registrars and cross border clearing houses to find ways to allow in scope UK companies with international listing structures to move to having all of their shares held in the intermediated securities chain in a single CSD. During the feedback we were told that this is not currently possible (for example, for UK companies who have a listing of shares in the United States). However, we are aware of some European companies who have or are planning to have all their shares held in one CSD who have a European and US listing so it seems to us that in the medium term it should be possible for such companies to move to all of their shares being held in the intermediated securities chain.

Step 3: all shares transition into the intermediated securities chain

- **Recommendation 13: Once improvements to the intermediated system are made under Step 2, the Technical Group should consider requiring that the digitised share registers become a "one way street", with no new shares being issued onto them**

The Technical Group should consider whether, to provide impetus for the full move to the intermediated system, there should be no further transfers onto the digitised registers once the improvements are made under Step 2, and digitised registers should become a 'one-way street' where shares can only leave the registers. So, for example, (i) on any new admission to trading on a UK trading venue, the issuer would not be able to adopt a digitised share register and therefore all of its shareholders would have to participate in the intermediated securities chain. Further, any newly issued shares would need to be held through the intermediated securities chain even if existing shares of the same class are on a digitised share register; (ii) as a default position, neither new shareholders acquiring shares nor shareholders in the intermediated securities chain would be able to move onto the digitised share register. Any corporate action by a shareholder who is on the digitised share register would require that shareholder to move onto the intermediated securities chain at that point. This would not include shareholders receiving regular dividends. The Technical Group should consider whether this measure is necessary, and if so how it should be implemented.

- **Recommendation 14: The Technical Group should consider whether a 'sunset date' should be set for digitised registers to end and the full move to the intermediated system to take place**

  The Technical Group should consider whether, to avoid the process of full digitisation stalling and to ensure that the digitised share registers do not become depositories of small dormant shareholdings, a sunset date should be determined for the full move to the intermediated system to take place. The Technical Group should consider whether this is necessary based on progress towards all shares moving into the intermediated system. If it concludes that this is necessary, it should recommend how and when this should take place.

  We have suggested below some indicative options that could be considered for treating untraced or uncontactable shareholders, or any other shareholders who are still on a digitised share register on any 'sunset' date.

  These options would require further analysis – for example, the Technical Group and/or the government would need to consider what threshold is appropriate for judging a shareholder to be untraced or uncontactable, and would need to consider whether how any dormant asset fund should be set up.

  - Transfer the shares to a Company Sponsored Nominee if the issuer has decided to retain or establish such a nominee for this purpose.
  - Transfer the shares to an omnibus nominee sponsored by participating issuers and established for such a purpose, if this is thought desirable.
  - Sell the shares, with the proceeds credited to the bank account of the UBO.
  - For untraced/uncontactable interests, the shares could be sold with the proceeds dealt with through the issuer's own arrangements for 'lost' shareholders or transferred to a central 'dormant asset reclaim fund' set up for that purpose under regulatory or legal oversight.

- **Recommendation 15: In scope companies should be given powers to rematerialize "untraceable" CSN participants' holdings and cancel any evergreen elections of certificated holders for scrip dividends**

  We are also recommending that the opportunity is taken to unlock 'frozen' share interests held within Company Sponsored Nominees ("CSN") where the UBO is untraceable. Such interests today cannot be released under the issuer's 'lost' shareholder provisions and are effectively lost forever. We recommend that as part of the digitisation 'clean-up' such interests are

rematerialized (i.e. certificated) and then such certificated interests can fall to be dealt with as recommended in Recommendation 14 above for other untraced/uncontactable interests.

- **Recommendation 16: Issuers, registrars and intermediaries should ensure all stakeholders are made aware of the digitisation process and how it affects them**

  In scope companies should be required to provide regular notice to their shareholders to make them aware of the digitisation process and how it affects them.

  This should include making shareholders aware of any measures that may be taken to transition shares into the intermediated securities chain, and how their shares will be affected. It should include an explanation of how shareholders can exercise their rights through the intermediated system following the improvements which will be made as part of Step 2.

Bill of Shareholder Rights

This Bill illustrates the conditions that we recommend should be satisfied in the baseline service that intermediaries should provide to shareholders in order to conclude that shareholders are able to exercise their rights effectively and efficiently in the improved intermediated securities chain. Note that references to "shareholders" include ultimate beneficial owners holding interests in shares through intermediaries.

1. **Right to Receive Company Information**
   Shareholders should be entitled to receive all relevant company information electronically, with the option to receive physical copies where necessary.

2. **Right to Transmission of Information through Intermediaries**
   There should be prompt communication of company information through the intermediated securities chain to shareholders. Intermediaries should be obliged to transmit information about the identity of shareholders to the company, enhancing communication channels between the company and its intermediated shareholders.

3. **Right to Participate and Vote**
   Shareholders should have the right to participate and vote in general meetings, either directly or through intermediaries. They should be entitled to confirmation of vote receipt and assurance of valid recording and counting by the company. Shareholders should also have the right to know that their responses and instructions are transmitted by intermediaries back to the company without delay.

4. **Right to Transparent Fee Disclosure**
   Shareholders should be informed of any intermediary fees related to identification, information transmission, and facilitation of shareholder rights. Fees should be non-discriminatory and proportionate to actual costs.

5. **Right to Receive Payments Electronically**
   Shareholders should receive payments electronically unless otherwise agreed with the company.

6. **Right to Seek Compensation for Misleading Public Information**
   Shareholders should be able to seek compensation if they suffer a loss due to misleading statements, dishonest omissions, or dishonest delays in the publication of information related to publicly traded securities.

Now vs then – the rights of certificated shareholders now and UBOs holding via the improved intermediated system following Step 2 [19]

	Shareholder rights	Certificated shareholders currently	UBOs who will hold interests through intermediated securities chain
1.	Right to attend and vote at general meetings	✓	✓
2.	Dividend rights	✓	✓
3.	Information rights (including right to receive annual report and accounts and constitutional documents)	✓	✓
4.	Inspection rights (including right to inspect certain statutory registers and directors' service contracts)	✓	✓
5.	Rights to sue for wrongdoing (including presenting an unfair prejudice petition, derivative claim and petitioning for the winding up of the company on the just and equitable grounds)	✓	✓
6.	Rights to participate in other corporate actions such as capital issues, redemptions, share buybacks, takeovers and demergers	✓	✓

[19] This table illustrates how the report's recommendations would affect a non-exhaustive list of shareholder rights of existing certificated shareholders.

Indicative Timeline of the Final Recommendations of the Digitisation Taskforce

Step 1: removal of paper shares and establishment of digitised registers

As soon as possible
Formation of Technical Group

By end of 2027
Physical share registers and share certificates replaced by digitised share registers

As soon as possible
The Uncertificated Securities Regulations amended such that shares of UK incorporated companies held on an overseas branch register can be held in dematerialised form

Step 2: preparing for a fully intermediated system

Within this Parliament:

- Implement various legislative and regulatory changes to improve the experience for UBOs in the intermediated securities chain
- Steps taken to facilitate UK digitisation for Jersey, Guernsey and Isle of Man companies admitted to trading in London
- Steps taken to facilitate the digitisation of UK plcs with other international listings

Step 3: All shares transition into the intermediated system

By the end of this Parliament:

- Digitised share registers potentially become a 'one-way street'
- Companies given powers to rematerialise "untraceable" CSN participants' holdings
- Issuers, registrars and intermediaries should ensure all stakeholders are made aware of the digitisation process

Legislative Changes Required

Below are the principal legislative changes which we believe will be necessary to implement the final recommendations. Decisions on which areas of legislation to take forward and the final form of any drafting will be for the government to determine.

Step 1: removal of paper shares and establishment of digitised registers

- **Recommendation 1: Physical share registers should be replaced by digitised share registers, and physical share certificates with entries on these digitised registers. There should be a single implementation date for this move, before the end of 2027**

    - Regulations should be made under section 786 of the Companies Act (together with section 788)[20] to specify that the register of members required under section 113 Companies Act must be kept only in digitised form in the case of all UK incorporated companies[21] whose shares may be purchased and traded by the public, subject to the exceptions outlined in this report. Such legislation should also specify that any existing physical certificates in such companies are no longer prima facie evidence of a shareholder's title to the shares (section 768 of the Companies Act) as the digitised share register will constitute the sole prima facie evidence of a shareholder's title to the shares. The government should also consider whether changes to the Uncertificated Securities Regulations are required to accommodate the digitised registers.

    - We further recommend changes to the following which will be impacted by the digitisation process:

        - Stock Transfer Act 1963 and Stock Transfer Act (Northern Ireland) 1963 – A clarification should be added that stock transfer forms and the surrounding process can be entirely dematerialised, including the use of e-signatures or electronic authority; in addition to the legal changes, new procedures will need to be developed with HMRC and registrars for the collection of stamp duty on digitised share registers. Alternatively, physical transfer forms could optionally be retained for off market transfers for stamp duties pending the digitisation of this process.

        - UK Takeover Code (note 4(c)(i) to Rule 10) - This note to Rule 10 sets out the requirements for a valid acceptance of a takeover offer (in the context of the acceptance condition). Note 4(c)(i) refers to the acceptance form being accompanied by share certificates. The other limbs to 4(c) refer to other circumstances where the acceptance form is valid (e.g. the acceptance form is from the registered holder or covered by a CREST transfer).

        - Potentially Government Stock Regulations to be amended - These regulations relate to the administration of UK Government bonds and stocks. Regulation 8 provides for the right of registered holders of such stock to a certificate representing that stock.

- **Recommendation 2: A Technical Group should be established to finalise the digitisation process**

---

[20] These Companies Act provisions allow the making of regulations requiring companies, or any designated class of companies, to adopt arrangements under which title to securities is required to be evidenced or transferred (or both) without a written instrument.

[21] As defined in the Companies Act which means a UK incorporated company.

No legislation or regulations required for this recommendation. The process of establishing the Technical Group will fall to HM Treasury.

- **Recommendation 3: The USRs should be amended as soon as possible such that shares of UK incorporated companies held on an overseas branch register can be held in dematerialised form**

  The USRs should be amended as soon as possible such that shares of UK incorporated companies held on an overseas branch register can be held in dematerialised form. There will also need to be changes made to the Companies Act in order to allow for the proper interoperability of dual Hong Kong and London listings on a digital basis.

- **Recommendation 4: There should be better information provision as part of the move to digitised share registers**

  Changes should be made to the "required information" under Sections 113A and 113B Companies Act, noting the power of the Secretary of State under Section 113C to change the "required information" – to require the provision of an email address and bank account details of each shareholder on its digitised share register – and exclude such information from the power of inspection under section 114 to 117 of the Companies Act, potentially through regulations made under section 120A of the Companies Act (power to make regulations protecting material).

Step 2: preparing for a fully intermediated system

- **Recommendation 5: The ability for companies to communicate digitally with their shareholders should be made easier**

  - Implementing this recommendation would involve the following:

    - removing the conditions imposed on electronic communications and communications by means of a website by provisions such as sections 1144 and 1148 of the Companies Act and Schedule 5 of the Companies Act. Shareholders should still be able to request hard copy versions of documents.

    - amendments to DTR 6 (applicable to issuers on a UK regulated market) which currently provide that if a company uses electronic means to communicate with shareholders, there are certain procedures with which it must comply (see DTR 6.1.8R). These include that the decision to use electronic means must be taken in general meeting and other requirements that reflect schedule 5 of the Companies Act.

  - We further note that the ICO draft Direct Marketing Code of Practice, once finalised, will be a statutory code of practice providing guidance on direct marketing. It aims to help compliance with GDPR and Privacy and Electronic Communications Regulations. Broadly, service messages do not constitute direct marketing and fall outside the scope of the electronic marketing requirements. We recommend a clarification in the Code that e-comms (from a company) transmitted by registrars and intermediaries to each other and to UBOs constitute service messages, on the basis registrars and the intermediaries are just acting as a conduit and not adding any marketing.

- **Recommendation 6: Payments to shareholders should have to be made electronically**

  Legislation should be brought forward to require in scope companies to make payments to shareholders by electronic means as a default position (together with the withdrawal of cheque payment as an option) unless otherwise agreed between a company and a shareholder. We also

recommend considering whether the provisions relating to payment within the model articles should be updated to clarify that these are subject to the requirements of primary legislation.

- **Recommendation 7: A common communication language should be implemented for the intermediated securities chain**

  Alongside the legislative changes required to implement the improvements to the UK intermediated securities chain, the Technical Group should consider, in consultation with technology and industry experts, whether new regulation may be desirable to effect the widespread adoption of a common communication language (such as ISO 20022) for the intermediated securities chain, or if this could be achieved via market practice.

- **Recommendation 8: Intermediaries should have to offer a baseline service to shareholders**

  - Transpose the relevant provisions of SRD II into UK law, through changes to the Companies Act, FSMA or FCA rules, with appropriate enhancements to extend to UBOs certain shareholder rights as currently set out in SRD II and to place obligations on intermediaries to facilitate of communications between issuers, companies, and intermediaries and to facilitate shareholders exercising voting rights.

  - An evaluation should be conducted to determine, as a result of implementing the SRD II procedures, whether the processes under section 793 of the Companies Act should be eliminated due to potential redundancy. During this evaluation, the Technical Group should assess the necessity of retaining certain elements of the section 793 process, such as:

    - The ability for shareholders holding at least 10% of the voting rights to compel the company to issue a section 793 notice.

    - The obligation for the company to maintain a section 793 register.

    - The requirement for the company to make the section 793 register available for inspection.

  - These elements are not currently addressed under SRD II and should be carefully considered for their potential continued relevance.

- **Recommendation 9: Other measures should be taken forward to enhance ultimate beneficial owners' rights**

  - The Companies Act should be amended to require intermediaries to nominate their ultimate investor(s) as being entitled to enjoy or exercise certain shareholder rights under Part 9 of the Companies Act. This would have the effect of allowing an ultimate investor to exercise shareholder rights and to enjoy information rights of shareholders (specified under Part 9 of the Companies Act) as if that ultimate investor were a shareholder of the company.

  - The Companies Act should also be amended to include an obligation on all companies to provide, upon request, information to members which enables them to determine that their vote has been validly recorded and counted. This should also consider arrangements in SRD II.

  - We recommend removing the headcount test from section 899 of the Companies Act such that a court could sanction a scheme of arrangement where there had simply been approval by a number representing 75% in value of the members or creditors of the company – without requiring that the scheme also be approved by a majority in number of the members or creditors.

- Section 98 of the Companies should be amended to facilitate the ability of ultimate investors to bring a court application to cancel a resolution to re-register a public company as a private company.

- We recommend amending Section 90A and Schedule 10A of FSMA to place beyond doubt that ultimate investors in an intermediated securities chain have standing to bring a claim under section 90A of FSMA.

- We recommend adopting the Law Commission's proposal to review legislation such as the Companies Act and FSMA to identify other provisions which limit the rights of ultimate investors, either inadvertently or as a result of previous policy decisions which should now be reviewed. The Technical Group could consider engaging the Law Commission or another expert body to undertake this exercise.

- Amending the law to clarify that the formality requirements in section 53(1)(c) of the Law of Property Act 1925, which states that "a disposition of an equitable interest or trust subsisting at the time of the disposition, must be in writing signed by the person disposing of the same, or by his agent thereunto lawfully authorised in writing or by will", do not apply to transfers of intermediated securities.

In order to increase legal certainty in relation to intermediated securities transactions, the government should consider:

- whether a legislative or regulatory amendment is necessary to confirm that distribution of an insolvent intermediary's assets to ultimate investors should be effected on a proportionate basis;

- further work to implement the Law Commission's previous 2008 recommendations in relation to the purchase of intermediated securities by a purchaser in good faith and without notice;

- amending the Financial Collateral Arrangements (No 2) Regulations 2003 to remove potential uncertainty in relation to whether an intermediary has sufficient "possession" or "control" of an ultimate investor's intermediated securities; and

- how best to support the Law Commission's current work on digital assets, which considers whether intangible property (such as intermediated securities) can be "possessed".

- **Recommendation 10: The government should consider if it might be possible for the sole purpose of this dematerialisation exercise that a waiver of KYC/AML checks be granted**

  This is a matter for the government to consider and decide upon how best to implement, for example by deeming the relationship that arises in the course of the transfer not to be a 'business relationship' for the purposes of Regulation 27 of the Money Laundering Regulation.

- **Recommendation 11: Steps should be taken to facilitate UK digitisation for Jersey, Guernsey and Isle of Man companies admitted to trading in London**

  No UK legislative changes anticipated for this recommendation.

- **Recommendation 12: Steps should be taken to facilitate the digitisation of UK plcs with other international listings**

  Legislative and / or regulatory changes may be needed in due course following the work of the Technical Group on improving international operability.

Step 3: all shares transition into the intermediated securities chain

- **Recommendation 13: Once improvements to the intermediated system are made under Step 2, the Technical Group should consider requiring that the digitised share registers become a "one way street", with no new shares being issued onto them**

  Legislation could be brought forward to require that, once the improvements are made under Step 2, no further transfers would be able to be made on to the digitised share register.

- **Recommendation 14: The Technical Group should consider whether a 'sunset date' should be set for digitised registers to end and the full move to the intermediated system to take place**

  - If the Technical Group decides that a sunset date is necessary, it is likely that our proposals for tackling untraced or uncontactable shareholders would require primary legislation.

  - Given that these proposals would require the company to unilaterally transfer or sell the shares of the untraced shareholders or UBOs without consent, it would be necessary to embed such powers in statute.

  - The "dormant asset reclaim fund" process as described in this recommendation could be implemented by introducing a statutory mechanism similar to the one used for dealing with money and securities under the Dormant Bank and Building Society Accounts Act 2007 and the Dormant Assets Act 2022.

- **Recommendation 15: In scope companies should be given powers to rematerialize "untraceable" CSN participants' holdings and cancel any evergreen elections of certificated holders for scrip dividends**

  - In order to facilitate companies' processes for dealing with untraceable shareholders, we propose that legislation should be passed to expressly permit a company to effect the conversion of uncertificated shares held by a CSN on behalf of participants who are deemed untraceable in accordance with the provisions of that company's memorandum or articles of association into certificated form. Such re-materialised shares could then be digitised in accordance with the proposals set out above.

  - Such legislative changes could be implemented by amending the Uncertificated Securities Regulations 2001 such that a conversion of uncertificated shares held by a CSN to certificated form may be triggered by the company issuing a written notice to the CREST operator, or otherwise by incorporating such power into the new legislation passed pursuant to Recommendation 14.

  - The new legislation should contain an express power to enable issuers to unilaterally cancel any (evergreen) elections of certificated holders for scrip dividends.

- **Recommendation 16: Issuers, registrars and intermediaries should ensure all stakeholders are made aware of the digitisation process and how it affects them**

  - Unlikely to need legislation or regulation.

Summary of Responses Received to the Interim Report

The Taskforce received approximately 3,300 responses to the Interim Report, of which:

- Approximately 45 were detailed, substantial responses from listed companies, investor organisations, corporate service providers and adviser bodies.
- Approximately 550 were a mixture of detailed, substantial responses and shorter responses from individuals which did not follow one of the template responses mentioned below.
- Approximately 1,200 were responses from individuals following a template from a US investor advocacy group called "We the Investor".
- Approximately 1,000 responses were from individual investors using a second template response.
- Approximately 520 responses based on a third template (with some variations) from an investor group called X-Change Now e.V, which was also circulated on reddit in a slightly different format.

Below is a summary of the responses received in relation to each of the questions and interim recommendations the Interim Report. Many of the responses received did not break down their contents by each of the questions and interim recommendations in the Interim Report. We have however sought to reflect their overall views in the summary below.

Shareholders, listed companies, investor organisations, corporate service providers and adviser bodies were overwhelmingly in favour of a move to removing paper share certificates. They were also strongly in favour of proposals for wider market digitisation such as enabling electronic-only communications between companies and shareholders and eliminating the need for physical copies of annual reports and dividend payments being made through physical cheques. Many respondents positioned this as part of the UK modernising its capital markets infrastructure more generally in order to maintain and enhance its strong global position.

There were however strong differences of opinion on the most appropriate model of digitising shareholdings. Most of the issuer respondents were in favour of requiring all shareholders to hold their shares through the intermediated securities chain – i.e. Model 3 in the Interim Report – but most individual shareholders, with many of them following a template, as well as a number of companies were in favour of the digitised share register – i.e. Model 1 in the Interim Report. Some of the template responses from individual shareholders supported Model 4 (Distributed ledger technology). Other respondents were indifferent to the model used provided it could be implemented quickly and efficiently.

Reservations were expressed in relation to both Models 1 and 3. In particular, the following issues were raised in relation to the models by respondents:

Model 1

- Requires the continued expense of listed companies retaining a registrar as their agent to run the digitised share register which needs to be combined with digitised holdings on the intermediated securities chain held in the CSD and on branch registers to provide the full picture of shareholder interests; transfers between the digitised register and the CSD may create reconciliation issues.
- There is no existing legislative framework for taking security over shares that exist only in a digital register. The CREST system suggested in Model 3 already provides a well recognised,

respected and widely used model for taking security over shares, known as the "escrow model". Model 1 would require the registrars to develop operational procedures that allow for the collateral giver to remain as the legal holder on the digitised non-CREST register, while transferring absolute operational control over the charged securities to the collateral taker or its nominee. Accordingly, there are challenges associated with taking a fixed charge or equitable mortgage under Model 1. Registrars advised that they would be able to create a system to give effect to taking security over shares.

Model 3

- A number of companies, in particular those with international listings of shares on other stock exchanges, identified that Model 3 is not compatible with having an overseas branch register for such an international listing. Feedback from various respondents raised particular issues where shares are dual listed in Hong Kong or directly listed in the US as examples.
    - In the case of Hong Kong there is no connection between the Hong Kong CSD and the London CSD, which means there has to be an overseas branch register of the UK plc which is permitted under the USRs. Connections are maintained instead via global registrars.
    - In the US, most dual listings have historically been facilitated through American Depository Receipts (ADRs) but a growing number of UK plcs have recently made arrangements to list their shares directly in the US (without an ADR). These arrangements would be adversely affected by Model 3 as Model 3 would require the US CSD, DTCC to open accounts with the UK CSD, CREST, which we understand is not possible without legal and regulatory changes in the US.
- Many respondents queried whether shareholders based overseas would easily be able to become a client of a UK based nominee given the additional compliance requirements for taking on overseas shareholders, such as KYC, and for communicating with overseas shareholders; Intermediaries confirmed to us that they have very few overseas clients for these reasons; we understand however that most shareholders based overseas are able to hold UK listed shares on platforms available in their country of domicile.
- Model 3 requires affirmative action by certificated shareholders. Respondents queried what happens to shareholders who do not respond. Would they be treated as untraced shareholders even though they may be exercising shareholder rights and receiving dividends etc?
- Concerns were expressed about the cost of nominees holding and servicing small shareholdings of individual shareholders and whether that would be economic.

Individual shareholder respondents whom we assume to be current certificated shareholders (as those currently holding their interests through the intermediated securities chain have chosen to use that format) were generally in favour of removing paper share certificates but were overwhelmingly against Model 3 because of:

- the separation of legal ownership from the UBO (the individual shareholder), who under Model 3 would become reliant on the nominee (who is the recognised "shareholder" under English company law, with all the rights that such status brings) or a chain of nominees to exercise the UBO's rights;[22]

[22] Explained in more detail in the summary paper from the Law Commission

- the resulting increased difficulty perceived in receiving shareholder documents and/or exercising shareholder rights because UBOs are reliant on intermediaries, sometimes a chain of intermediaries, passing on company communications and effecting corporate actions.

Thus, although individual shareholders supported a move to digitisation, they preferred Model 1 as it keeps the legal and beneficial ownership in one place, thus allowing the individual shareholder to directly exercise their rights as a shareholder, albeit that individual shareholders and their representative bodies accepted that exercise of voting rights in practice was limited; to some large extent, this was attributed to the inefficiency of paper based communication.

A number of the respondents said that a cost/benefit analysis with regards to both shareholders and issuers would have been helpful in order to make a fully informed assessment of the two main models.

Interim recommendation 1: Legislation should be brought forward, and company articles of association changed, as soon as practicable, to stop the issuance of new paper share certificates

The first interim recommendation in the Interim Report related to the concept of "turning off the tap" i.e. preventing new share certificates being issued from a moment in time. This is an important concept about drawing a line in the sand such that companies can then deal with a fixed pool of certificated shares that is no longer growing. It is particularly relevant to Model 3 (the intermediated chain model).

The Interim Report recognised that the timing of such a move depends on "a) the architecture of the future infrastructure and b) the time therefore required to communicate the actions required to shareholders and to set up the routing to move physical shareholdings to their digitised destination of record".

A number of respondents supporting a move to digitisation (whether through Model 1 or Model 3) made the following points:

- Turning off the "tap" is just the first step in digitisation; there needs to be a clear plan for the whole implementation of digitisation.

- If there is a move to Model 3, then shareholders will need to have a nominee account set up in time for any corporate actions such as rights issues to avoid any split holdings and entitlement problems.

- It is best to avoid a period running dual systems where shareholders end up with a split holding with some shares in digitised form and others in certificated form. Respondents cited real world examples from Ireland's CSDR implementation in relation to corporate actions, for example.

- Under Model 3, overseas certificated shareholders and shareholders in companies with overseas branch registers (e.g. where companies have an overseas listing of shares) may not be able to move to a nominee model.

- In the case of overseas certificated shareholders, nominees may not be willing to onboard them for compliance reasons and in the case of companies with dual London and overseas listings, the rules and laws of the overseas exchange or its jurisdiction may prohibit a move to Model 3 or create unintended tax consequences.

- There needs to be a public information campaign to prepare individual shareholders about the date for turning off the "tap" and for the move to digitisation generally.

- Turning off the "tap" is best implemented through legislation to avoid the need for individual companies to change their articles of association (although listed companies' articles of association permit the issuance of shares in certificated and in uncertificated form).

- Six months' notice is too short a period of time (but see Question 1 responses below).

- Legislation should not only turn off the "tap" but also prevent conversion of dematerialised shares into certificated form (known as "reflux"). However, see below regarding untraceable CSN holdings.

- There are some technical points to address with turning off the "tap" in relation to Model 3 in particular, such as:

    - Implementing legislation to allow issuers to unilaterally annul and 'evergreen' elections of certificated holders for scrip dividends or DRIPs.

    - A number of corporates suggested that legislation should also allow for companies to initiate a temporary re-materialisation of "untraceable" CSN participants' holdings to avoid them being stuck in the CSN forever; those shares may also be accumulating dividends – noting that any interest on the dividends held in the CSN flows currently to the CSN provider; provisions in a company's articles of association to forfeit the dividends and the shares do not apply, so legislation would be needed to re-materialize the CSN holdings and put them in the same position as the existing certificated shares.

    - Whether unclaimed cash dividends already accumulated in a CSN as client money which cannot be transferred across to an issuer could also be released, where arising in respect of untraceable CSN participants, to be applied to "good causes" under a Company's own or a government sponsored dormant asset arrangement.

Interim recommendation 2 – the government should bring forward legislation to require the dematerialisation of all share certificates at a future date, to be determined as soon as possible, in conjunction with interim recommendation 1

Many respondents combined their responses to interim recommendations 1 or 2 or cross referred, given that they are related topics; however interim recommendation 2 in the Interim Report was focussed on legislating to remove all of the remaining certificated shares and required them to be held in uncertificated form.

Some of the observations from respondents to this interim recommendation include:

- Dematerialisation of existing certificates cannot take place without a clear plan and timeline for the implementation of digitisation generally.

- Legislative changes are best implemented through changes to the Companies Act 2006 (as amended) and should grant powers to ministers to make future regulations as appropriate to implement digitisation.

- As with interim recommendation 1, the abolition of share certificates should not be brought into force until all necessary rules, standards and processes for nominees (under Model 3) or new authentication procedures (for Model 1).

- Having concerns about setting a timeline for digitisation until the challenges and issues identified in the responses are resolved.

- A suggestion that the Euroclear CREST counter could provide the necessary infrastructure to collect and dematerialise existing share certificates.

Question 1 – What would be an appropriate timeline to require all share certificates to be dematerialised to ensure that communication arrangements necessary to allow previously certificated shareholders to have access to their rights are in place?

Companies responding thought that there needed to be an intensive period of communication and an information campaign to educate all shareholders (and financial intermediaries) who hold their interests in registered form, including any temporarily re-materialized "untraceable" CSN participant holdings. This is needed in order to drive the actions needed by shareholders to dematerialise their shares (under Model 3) where they would (depending on the route chosen) need to find and dematerialise their share certificates.

A number of responses suggested a period of 18 to 24 months to allow for legislation to be enacted, communications to made over a period of two annual report cycles (to allow for changes to articles of association), to allow time for a government awareness campaign and (in the case of Model 3) to allow for individual shareholders to set up accounts with nominees. Others, including registrars and some industry bodies, suggested a longer period of two to three years given the number of individual shareholders needing to take actions, starting from when an agreed digitisation model can be communicated to them and the legislation enacted.

Some respondents wanted great urgency given the UK is behind other international markets on digitisation.

Some respondents flagged the need to potentially change the articles of association of companies to accommodate the new regime, whereas others suggested that legislation should be passed that overrides articles of association (as was the case in the abolition of bearer shares in the UK in 2015).

The registrars and some industry bodies expressed concerns about running "dual processing arrangements" especially for corporate actions such as rights issues and dividend reinvestment plans. and so would prefer implementation in one "big bang" rather than in two stages (stage one being "turning off the tap" for new issues and stage two being dematerialisation of all existing shares. They referred specifically to some problems encountered in Ireland with the implementation of their digitisation. They also referred to a potential workaround as long as two different ISINs are used (one for the new shares and one for the existing shares).

A number of respondents distinguished between Model 1 and Model 3 and stated that Model 1 would take a shorter period to implement (perhaps within one year to 18 months of the implementation of the required legislation). One respondent pointed to the Republic of Ireland being able to agree and establish a system for full dematerialisation when moving to a model similar to Model 1.

If moving to Model 3, a number of respondents pointed out the additional practical steps that would need to be taken by millions of individual shareholders which they thought would take longer than a move to Model 1, for example:

- Appointing a nominee which may take time (due to onboarding and due diligence requirements). Some respondents suggested it may not even be possible for overseas shareholders (which they suggested represent approximately 20% of the FTSE 350 certificated shareholders) to appoint a nominee owing to regulatory barriers; and the fact that costs may be prohibitive for small shareholdings.

- The time and process needed to move securities from existing CSNs to new CSD accounts.

- Putting in place improved communications arrangements between UBOs, intermediaries and companies as part of any move to Model 3 (which is dealt with in more detail in question 7 where there was broad support for the UK moving to SRDII standard).

One respondent pointed to the risk of scams and attempted fraud on individuals and asked for the final proposals to plan to minimise such risks. Other respondents pointed out that most holders of certificated

shares are likely to be individual shareholders and therefore less used to dealing with the financial system than institutional shareholders.

A number of respondents said they would like to see some cost / benefits analysis undertaken of Model 3 vs Model 1.

A number of respondents said that they need more details on the proposed digitisation process before commenting on what would be a suitable timeline.

Some individual shareholders used their response to this question to state their concerns about loss of rights and potential additional costs to the individual shareholder of a move to Model 3. They requested a reform of the intermediated shareholding model (i.e. the Model 3 proposal) alongside the development of a fully digitised (i.e. Model 1) alternative to prove which model is more cost effective for all shareholders.

Interim recommendation 3 – the government should consult with the issuer and investor representatives on the preferred disposition of "residual" paper share interests and whether a time limit should be imposed for the identification of untraced UBOs.

The Interim Report proposed three possible solutions for untraced shareholders:

- *For issuers, or an agent on their behalf, to maintain a nominee account for such holdings with the responsibility to continue - for a reasonable time - to seek out UBOs*

- *To seek shareholder approval within the articles of association that such 'residual' certificated shares, once dematerialised, are sold in the market with the issuer retaining the funds in a segregated account to return to shareholders who ultimately identify themselves within a set period, possibly aligned to the period after which unclaimed dividends are forfeited*

- *Finally, the option exists to transfer all or a portion of the proceeds of dematerialised shares without identified UBOs to an authorised reclaim fund under the UK's Dormant Assets Scheme, (a scheme which seeks to reunite people with their unrecognised financial assets and where this is not possible, for the money to be used for 'good causes'), but with the obligation of the scheme to compensate UBOs who ultimately come forward with a valid claim within a prescribed time limit.*

Some issuers were strongly against further consultation as it would further delay the move to digitisation, noting that no individual body can credibly represent the many "untraceable" individual shareholders, many of whom are outside the UK. Issuers also noted that they have rights under their existing articles of association the right to sell shares of untraceable shareholders after a certain period of time. One respondent said no further consultation would be necessary if issuers were to just continue to exercise their existing powers in their articles of association relating to untraced shareholders but that a consultation would be needed of there was going to be a uniform approach imposed on all issuers (in particular under Model 3). Overall, there was support for option two with some more limited support for option three.

One respondent thought it is also important to consider (in addition to traditional "untraced" shareholders), the position of shareholders who for some reason are unable to find a nominee (under Model 3) or who simply fail to do so – would they end up being treated as an untraced shareholder and have their shares sold, with a right to claim the proceeds?

Respondents also stressed the need for a proper information campaign (centrally funded by government) to make individual shareholders aware of any actions they need to take (such as getting onboarded by a nominee in the case of Model 3) to dematerialise their shares.

Another respondent was supportive of a further consultation on this topic and suggested that in addition to issuers and investors, intermediaries, retail platforms, wealth managers and financial advisers should also be involved.

Question 2 - What approach should be taken to the disposition of residual paper shares and should a time limit be proposed for identifying any untraceable ultimate beneficial owners?

Responses to this question generally favoured a natural attrition process for certificated shareholders (including any temporarily "re-materialised" untraceable CSN holders which some respondents proposed in relation to the Model 3 route).

A number of companies mentioned they already have the right under their articles to forfeit the dividends and shares of "gone away" shareholders, in periods ranging from six to 12 years. A shareholders representative respondent suggested a longer period of 20 years would be necessary.

Respondents again mentioned the criticality of a public information campaign to ensure the number of untraced shareholders is minimised. This was a common theme in the responses.

Respondents mentioned that a centrally appointed nominee or one appointed company by company would be needed to hold the shares and associated dividends of untraced shareholders. Some industry bodies mentioned this would give rise to additional costs for issuers, which they wish to see minimised. Some respondents flagged that primary legislation would be needed to forcibly move the shares of untraced holders (and any related dividends) into a central nominee account or a nominee account set up by the issuer.

Two registrars noted that for companies they work for, ca. 8 to 9% of certificated shareholders on average are marked as gone away. A further 9% are relatively inactive with their certificated shareholdings and the rest are actively engaged through, for example, voting, cashing dividend cheques, participating in DRIPs or receiving electronic payments or communications. They noted that investors holding via a CSN are less likely to be untraced shareholders as they are already intermediated. It is untraced holders of certificated shares who are most likely to be impacted. There was concern expressed by some issuers that currently certificated shareholders may fail to respond to any mandatory move to a nominee under Model 3 and end up being treated as untraced.

Some respondents distinguished between Model 1 and Model 3 and expressed the view that in Model 1 a digital register would not be hindered by the existence of untraced shareholders as they would be dealt with under the existing articles of association provisions of each issuer. Some respondents flagged that a mandatory nominee arrangement (under Model 3) either using a central nominee or company specific nominee could face difficulties accepting shareholders due to KYC and other onboarding requirements. Some respondents suggested legislation or regulatory forbearance could override the need to carry out KYC on new nominee clients but others suggested this would only delay the need for KYC because it could be needed before any payments could be made to a shareholder or a transfer of shared carried out by a shareholder.

Individual shareholders who responded (and assumed to be certificated) were in favour of Model 1 compared to Model 3 to as it does not require any affirmative action on their part.

Question 3 - With regard to 'residual' certificated shareholdings attributable to uncontactable shareholders, do you support each issuer having the option to manage these residual interests themselves within the authority contained within their articles of association as well as having the option to transfer the proceeds of sale to the UK's Dormant Assets Scheme?

A number of responses were supportive of a transfer of shares held by untraceable ultimate beneficial owners to a government backed entity in the longer term.

A number of responses mentioned the Dormant Bank and Building Society Accounts Act 2008 and the Dormant Assets Act 2022. Other respondents mentioned similar schemes in Europe where untraced shareholders' shares are sold after a period of time. The former establishes the "reclaim fund", to which dormant deposit balances may be transferred once they have been declared dormant. The latter expands the scope of the arrangement to apply to distributions to be made by Companies to shareholders for whom no payment information is available and permits investment firms to transfer units in collective investment schemes to the fund. Under the Dormant Assets Fund, the untraced holder's shares would be sold and the holder would have a right to reclaim the proceeds of sale (and any unclaimed dividends relating to those shares to which they were entitled). One respondent suggested that after a period of six years the unclaimed funds should be allocated to charitable causes.

Most issuers were opposed however and felt that they had sufficient rights under their existing articles of association to deal with untraced shareholders (in essence option two). Some questioned the effectiveness of the UK Dormant Assets Scheme for this purpose and were also against an issuer sponsored nominee because, for example, it will struggle to take on the holdings held by shareholders in jurisdictions outside the UK for regulatory reasons. One issuer suggested that if a more bespoke government backed scheme could be developed where both the assets and the liability associated with those assets could be transferred away from the issuer, that could be a more attractive option for issuers.

One respondent noted that most companies will need to change their articles of association to manage residual interests i.e. shares held not by "untraced shareholders" but those who for whatever reason are unable to have their shares held by a nominee (under Model 3) because standard forfeiture provisions do not necessarily apply to such residual certificated holdings.

One responded mentioned the Australian ASX listing rule on "marketable parcels" which allow issuers to sell shareholdings beneath a certain size. This would obviate the record keeping and cost of trying to locate lost shareholders which is associated with the current Dormant Assets Scheme.

Shareholder representative bodies were against issuers managing the residual certificated holdings and prefer them to be managed in one central place such as the Dormant Assets Scheme.

One respondent highlighted that currently the Expanded Dormant Assets Scheme for the securities sector does not allow for the transfer of untraced shares from any nominee (if that is the route chosen) as they fall under the custody asset rules of the FCA so any nominee would remain liable to the UBO.

Question 4 – Is the ability to have digitised shareholdings held on a register outside the CSD important to issuers or UBOs?

The vast majority of responding individual shareholders (assumed to be certificated) and their representative bodies were against Model 3 as it requires individual shareholders to appoint a nominee, which they assumed they would likely have to pay for and which results in the loss of a number of shareholder rights under English law which attach to a "member" i.e. legal owner of the shares (as opposed to the beneficial owner, which is the status of the UBO under Model 3). Registrars who responded were all against Model 3 and in support of Model 1 as it is closely aligned with the "Industry Model" that they previously proposed to government in 2014. The loss of direct ownership and hence a direct relationship with the issuer was mentioned in many responses. Shareholder and shareholder representative bodies cited rights that attach to members i.e. legal owners rather than ultimate beneficial owners i.e. beneficial owners. Model 3 is a model in which an intermediary holds the shares as the legal owner or member for the purposes of the Companies Act under nominee arrangements for the UBO who relies on the intermediary to exercise rights on his or her behalf and to pass on company communications. Individual shareholders and Shareholder bodies often mentioned the right to vote, attend AGMs, ask questions of the Board, appoint a proxy, file shareholder resolutions and to requisition general meetings as rights they feared losing under Model 3. Respondents also suggested that Model 1 would be less confusing for older investors whom they suggested make up many of the certificated shareholders, as they would still deal with the registrar they are familiar with rather than a new nominee

which they would have to set up. Concerns were mentioned about the possibility of fraud on such persons if there is a forced move to Model 3 as they could be confused as to what they are required to do. Some respondents mentioned possible negative public and press reaction from moving to Model 3 as it is less well understood by retail shareholders and results in the loss of their direct rights as shareholders. Other respondents thought that Model 3 could result in more untraced shareholders where it relies on actions by individual shareholders (transferring their shares to, and appointing, a nominee).

Many if not most issuers and their representative bodies were strongly opposed to Model 1 as it perpetuates the need for a second shareholder register (and by extension any CSN) outside the CSD with all of the associated cost (to the issuer) and administrative inefficiencies associated with running such a second register. Other disadvantages cited included hindrances in executing corporate actions and diminishing the attractiveness of the UK market. Industry bodies were largely also in favour of Model 3 noting that this is how approximately 99% of the value in shareholdings in the FTSE 350 are currently held and it is globally accepted best practice.

However, a number of other issuers and some industry bodies were supportive of Model 1 and think it should exist alongside the existing Model 3 – to allow the small number of direct retail shareholders who prefer to have their name on the company register. Reasons cited included:

- to avoid the forced transfer of legal ownership under Model 3
- cost attribution between the cost of a CSN (borne by the issuer) or individual nominee (borne by the individual shareholders)
- for non-UK resident shareholders who may find it difficult or impossible to be onboarded by nominees for regulatory or cost reasons
- for companies who have overseas listings involving an overseas branch register
- for overseas shareholders who are required to hold shares in their own name rather than through nominees in CREST (such as Cede & Co as the nominee for DTC (which is relevant to companies whose shares are listed and traded in the US) and
- those companies with overseas branch registers as part of an international listing (for example in Hong Kong).

Some respondents noted that in a number of international markets with similar share registration structures to the UK, such as the US, Australia, Canada, the Republic of Ireland and Hong Kong, each offers an option of directly registered holdings outside the CSD to shareholders. A number of respondents also thought Model 1 would be the lowest cost option (without providing data); other respondents said they would welcome some cost / benefit analysis to compare Models 1 and 3.
Respondents mentioned a potential solution to companies with overseas listings under Model 3 – this would be the development of bilateral CSD links between all affected markets (estimated to be eight markets excl. the US). However, respondents indicated that any such solutions are likely to be complex and require approval by multiple regulators, although it was noted that work is already under way to improve links between CSDs so this may well improve in the future. One respondent suggested that any imposition of Model 3 would risk breaking one of the principles in the terms of reference for considering how the UK system would work efficiently with international markets. Model 1 was stated to be fully compatible with arrangements for US and other overseas listings.

Some issuers and other parties suggested that legal reforms to the Companies Act should be implemented to enhance the rights of UBOs under English law so that they are much more aligned with the rights of "members" under English law.

Question 5 – Do you agree with the Taskforce recommendation that the optimal architecture is for all digitised shareholdings to be recorded in the CSD and managed and administered through nominees?

The responses to question 5 broadly followed the same pattern as the response to question 4. For those companies in favour of Model 3, their preferred (long-term) model of implementation was that:

- All shares are issued in dematerialised form.
- There is one CSD acting as the issuer's CSD (in the UK that would be CREST, operated by Euroclear United Kingdom and International).
- Within this issuer's CSD, all shares are held by third party intermediaries acting as custodian nominees for beneficial investors, other intermediaries or other CSDs acting as investors CSDs (all contracted and paid for by their direct clients).

Parties who were supportive of Model 3 said it is important that any charges from nominees to investors eg for the exercise of shareholder rights and for receiving company documentation are not disproportionate. They also suggested that further work is needed on the impact of Model 3 on individual overseas shareholders and whether they can be onboarded by nominees. Some respondents flagged that in the move to Model 3, intermediaries would likely need indemnities for lost share certificates which is another friction point. They also flagged that under COBs8.1, a nominee is required to have a written agreement with its client and therefore queried how nominees could hold shares for non-respondents.

Further arguments against Model 1 included that it means retaining a service model provided by the issuer or its registrar and merely replicates the status quo minus share certificates. A further argument in favour of Model 3 is that it is more equitable for all shareholders rather than there being a more costly solution paid for by issuers for the benefit of a small (and declining) number of certificated shareholders. However, again respondents cited the loss of a direct relationship in Model 3 between the issuer and its shareholders.

One respondent specifically cited the principles outlined in the Interim Report and suggested that Model 3 would breach Principles 1, 3 and 5 from the Taskforce's Terms of Reference (see Appendix 2 of this final report for the principles set out in the terms of reference), such that on balance Model 1 should be taken forward unless the government, as part of the enacting legislation for digitisation amends the Companies Act and Uncertificated Securities Regulations to create full direct shareholder rights for those intermediated by Model 3 and without the need for full KYC if they are existing shareholders of the issuer.

Particular concerns were expressed by small and medium sized listed companies over the costs associated with Model 3, including for investors as they would be transitioned to a regulated environment of nominees. A number of respondents mentioned that the provision of nominee services is a regulated activity due to the custodial relationship which results in additional compliance costs.

Some respondents highlighted that some securities such as non-transferable securities and warrants are not eligible for CREST.

Additional disadvantages under Model 3 for issuers were mentioned such as current lack of visibility over UBOs, lack of transparency over voting ahead of meetings; and greater lead times to allow the flow of information to UBOs. If Model 3 is to be adopted, there needs to be market-wide adoption of processes to ensure rapid communications up and down the chain of intermediaries between issuers and UBOs.

Respondents mentioned the change in costs allocation under Model 3. Currently the cost of running a CSN and handling all the related paper communications fall on the issuers (although all shareholders in effect pay indirectly). Under Model 3 if shareholders are required to have their own nominees, the cost would fall directly on the individual shareholders. It would be possible to have the company continue

to pay for the costs if, for example, each company appointed its own nominee to hold shares on behalf of its shareholders who hold shares in certificated form and / or through the CSN. A number of respondents thought shareholders should have the freedom to choose the nominee and to choose the service levels of the nominee that suits them (this is covered in more detail in the responses to question 7).

Some respondents suggested that the registrars themselves could offer nominee services to the smaller shareholders of the company which could be paid for by the company rather than the individual shareholders. Other respondents mentioned that intermediaries and third-party service providers are already developing services to assist shareholders exercising their rights such as voting, attending AGMs and receiving company communications to shareholders.

Registrars expressed a concern that were they to offer nominee services they would have to change their business models from a mainly unregulated activity to a higher cost more regulated activity as any nominee activity is regulated by the FCA (and they flagged that it can take a year to gain such FCA approval).

Respondents mentioned the extra burden on intermediaries in Model 3 given they will have to facilitate migration to their platforms and provide appropriate services to support a new shareholding framework. In particular, some respondents queried the economic incentive of nominees to provide these services to small, inactive holders or those based overseas.

Some respondents wished to preserve the ability of shareholders to choose between having their shares held by an intermediary or on a separate register (which would become digital).
One respondent mentioned the relatively weak bargaining power of individual shareholders when being onboarded by intermediaries – such as having to sign up to standard contracts with limitations of liability, for example.

Question 6 – Do you agree that the dematerialisation of current certificated holdings would be optimally pursued in a two-stage process, first to dematerialise to a single nominee (which could be sponsored by the issuer, an intermediary acting on its behalf or a collective industry nominee) and second to allow individual participants to move their beneficial interests to a nominee of their choice electronically?

This question was related to a potential move to the intermediated securities chain under Model 3.

A number of issuer respondents and trade bodies who supported Model 3 were against a two stage move as the initial single nominee perpetuates the CSN model of issuers paying for a corporate sponsored nominee or centralised nominee. They queried the suitability of CSNs holding for untraced shareholders in particular – for example the interest accrued on unclaimed dividends is currently kept by the CSNs themselves and not passed on to any untraced shareholders as and when they surface.

Other issuer respondents who supported Model 3 supported a two-stage process as having a single nominee arrangement will help reduce the complexity of transitioning shareholders away from certificates. They wanted this done on a synchronised basis across the market rather than at the time of choosing of individual companies. They also mentioned that the digitisation move will generally increase motivation for nominees to improve services for shareholders seeking providers, which will encourage shareholders to either pick their own nominee at the time of digitisation or move away from the company sponsored nominee over time.

Respondents who supported a two-stage approach to Model 3 thought that the initial stage would make dividend processing, voting, communications and corporate actions easier as there would be one nominee for the issuer to deal with initially rather than having their certificated shareholders scattering to different nominees. Again, respondents mentioned the difficulties of moving to a nominee in Model 3 for overseas shareholders due to legal or regulatory restrictions, sanctioned holders, corporate entities

who are not recognised as natural persons in law and untraced shareholders who are not able to make the decision and take the steps to enter into a nominee agreement.

Registrars who responded were all in favour of Model 1 and flagged that if Model 3 were adopted, including the two-stage process, not all registrars are currently set up to offer issuer sponsored nominee services.

Those respondents who were against Model 3 and preferred Model 1 were against the two-stage process as it is only relevant to Model 3.

Question 7 – Do you agree that facilitation of shareholder rights should be left to market forces, with full transparency as to whether access to such rights is available and where it is, clear communication around ease of access and charges allowing shareholders to choose between full service or lighter touch models?

Issuers and other parties who were supportive of Model 3 were generally in favour of the facilitation of shareholder rights to be left to market forces. They did however wish to see more transparency for shareholders regarding the cost of nominees and the availability of rights to shareholders who use a nominee's services. One respondent also warned against creating new natural monopolies through dictating common technologies (instead of common communication standards) or creating central data depositaries. These respondents also pointed out that currently shareholders can access a range of nominees at a range of prices and that they can choose whether to have access to voting rights and receive communications from issuers. They also expressed concern for smaller inactive shareholders who are perhaps not digitally enabled – they suggested that nominee providers may need to be encouraged or incentivised to provide at least a minimum level of services at a low cost, which would require regulatory intervention to make that an obligation on service providers. Many respondents mentioned again either having an issuer sponsored nominee providing this baseline service for free or for a low cost or making one nominee available for all companies to provide the baseline service. This solution would require standardised communications from listed companies and the relevant nominee to the shareholders, with minimum service levels being mandated and costs being transparently set out.

Respondents who were in favour of Model 3 were mixed in their views as to whether it should be left to the market to decide the service levels and the levels of fees for shareholders using a nominee service, given that it is currently "free" (to the shareholder at least) to hold the certificated shares. Some respondents wanted to see clear guidelines on the minimum service levels which nominees must offer UBOs including a baseline service of holding the shares, receiving dividends and shareholder communications and facilitating voting and attendance at general meetings – with the ability to opt out and payer lower fees if they have no interest in voting or receiving shareholder communications. Indeed, some respondents suggested that very few individual shareholders who hold their shares through nominees at the moment choose to exercise their voting rights so it would not be appropriate to require voting services as a minimum service level commitment from nominees, particularly if has led to additional costs. A number of respondents mentioned that generally service levels offered by nominees are improving through technology and that there are a number of low cost options available.

It was noted that three major retail focussed investment platforms currently offer voting services to UBOs; this was welcomed.

A number of respondents mentioned that communications up and down the intermediaries' chain in Model 3 would be enhanced through the mandatory adoption of SRD II standards in the UK and having it apply to UBOs. Some respondents were doubtful that without regulatory intervention the services offered by intermediaries to UBOs would improve. Issuers indicated that they are supportive of improvements to communications up and down the intermediated securities chain provided that such communications are provided by intermediaries as issuers wish to retain the current position of dealing with members at the start of the chain who will cascade downwards.

Supporters of Model 1 thought shareholders should always have the ability to hold their shares for free i.e. on a digitised register paid for by the issuer. Supporters of Model 1 thought that minimum service levels in the intermediated securities chain should be the full suite of shareholder rights that certificated shareholders are currently able to exercise as direct members of the issuer. Respondents in favour of Model 1 cited the 2022 Law Commission's Intermediated Securities Scoping Paper that highlighted the difference in rights between those of a member i.e. legal shareholder and those of a UBO i.e. beneficial owner higher up the intermediary chain: See in particular paras 10.66 to 10.68 of the Law Commission scoping paper. Supporters of Model 1 (and in particular those representing retail shareholders) also stated that retail platforms and other intermediaries do not all currently give online retail investors the ability to exercise all of their rights effectively and efficiently – and that they do not expect that to change in the future without regulatory or legislative intervention. Their responses to this question linked closely back to their responses to Question 5 which highlighted the loss of rights they would experience if required to hold shares through a nominee.

Interim recommendation 4 - Intermediaries should have an obligation, as a condition of participation in the clearing and settlement system, to put in place common technology that enables them to respond to UBO requests from issuers within a very short timeframe.

This question in the Interim Report was directed at the transparency of UBO information and who should have access to share ownership information in a digitised system. The Interim Report proposed that the register of information received under s.793 in relation to UBOs should not be publicly accessible given privacy concerns and possible unintended use of that data.

Issuers largely supported the adoption of SRD II throughout the full ownership chain between the issuer and the UBO. Respondents were against a de-minimis threshold for identification. SRD II was favoured as it is an existing standard and intermediaries and other market participants are familiar with it as many of them have EEA operations already using these standards. Given that ownership chains can be cross border, respondents said that a UK only approach would not be efficient. Companies were against the broadening of the availability of data obtained from UBOs, supporting restrictions on that information beyond the issuer level.

Some respondents flagged existing service providers who are already improving communications up and down the intermediaries' chain such as Proxymity who provide real time data technology throughout the custody chain already. Their technology solutions permit real-time notification from source and include for example post meeting vote confirmations as well as s.793 notices. Most respondents (including Proxymity) favoured a common language solution rather than a common technology solution (some respondents suggested that the latter can give rise to monopolies) and in so doing corrected lack of clarity in the interim report as a common language solution was what was intended. The common language suggested by a number of respondents was common messaging protocols and international machine-readable standards such as ISO2022.

Some respondents queried how the UK could impose a common standard on for example intermediaries in a chain who may be based overseas.

Question 8 – What should the service level agreement be between issuers and the intermediation chain, with regard to the provision of UBO information? With regard to turnaround time and the frequency of request, what would constitute 'fair usage' of that process – essentially a 'baseline' obligation? Should aggregation be permitted such that individual UBOs below a minimum percentage ownership need only be communicated in aggregate; what should that percentage be?

Many respondents covered their responses to Question 8 in their response to the linked interim recommendation 4 summarised above, or repeated their response.

Respondents to this question also supported intermediaries having to provide a minimum level of information about UBOs to issuers in a way that is much faster and more efficient than the current s.793

process. Respondents favoured having the information available on demand or always available in real time. Again, there was general support for SRDII as the relevant standard and cautioned against any divergence – for example article 3a of SDRII already outlines obligations with regards to the identification of shareholders.

Some respondents supported the maintenance of s.793 procedures alongside any new SRDII procedures. Other respondents called for legislative changes to recognise UBOs for shareholder identification purposes such that the s.793 process (which is time consuming and expensive) could be removed.

One respondent flagged that it is important to distinguish between the s.793 process and the information an issuer might need to communicate with its UBOs regarding exercise of voting rights or participating in a capital raising. Under the latter, issuers need to access information about all holders including smaller holders. This respondent supported there being an obligation on intermediaries to pass on UBO information to companies in a specified timeframe – and similarly that there should be obligations on intermediaries to pass on communications received from an issuer down the chain to UBOs.

Other respondents preferred to digitise the s.793 process and not create additional and potentially conflicting requirements and did not support any proposal regarding any minimum disclosure level. Other respondents preferred to replace the UK s.793 process with an SRD II process.

Question 9 – Do you agree that only issuers should have the ability to access information below the level of what is recorded on the company's share register? Should there be restrictions on how issuers can use that information, including sharing the information?

Issuers agreed that only issuers should have the ability to access information below the level of what is recorded in the company's share register, citing data privacy risks. They mentioned that issuers should be able to share that information with their financial, legal and other advisers who are under a confidentiality obligation in order to obtain advice in connection with corporate actions. Issuers were supportive of improving communications with UBOs through the intermediated securities chain.

There was support for companies continuing to be required to maintain shareholder registers of members under s. 808 of the Companies Act and for the right under section 811 of the Companies Act of inspection of the shareholder register (which is subject to the 'proper purpose' test) to continue.

Respondents supported improvements in the communications chain as a way of driving efficiencies in companies obtaining better and faster information on UBOs – they said that adherence to the standards in articles 3a and 3b of SRDII should make it possible to abolish s. 793 notices.

Other respondents saw no need to change the s.793 Companies Act procedures which allow companies to identify beneficial owners and include them in their section 808 register. Respondents also supported the continuation of s. 811(4) Companies Act along with section 116(4) as important as they allow shareholders to access the contact information of other shareholders to requisition shareholder resolutions.

There was support for email addresses to be held for UBOs and for members and UBOs to be able to consent to be defaulted into email communications.

Some shareholder bodies suggested adding email addresses and consent to email communications from other shareholders to allow shareholders to be able to communicate with other shareholders in the company on important matters and generally were in favour of the UBO information being shared between shareholders without triggering a breach of GDPR obligations.

Interim recommendation 5 – Intermediaries offering shareholder services should be fully transparent about whether and the extent to which clients can access their rights as shareholders, as well as any charges imposed for that service.

This interim recommendation was related to a potential move to the intermediated securities chain under Model 3.

Respondents generally supported more transparency by intermediaries in any move to the intermediated securities chain becoming mandatory for all shareholders i.e. Model 3.

Many respondents expressed concern about the potential additional costs for individual shareholders if they were required to move across to intermediaries under Model 3. Currently, certificated shareholders do not have to pay for holding certificated shares (although registrars do charge for certain actions, such as transfers of shares and lost certificates and respondents accepted that the costs of servicing uncertificated shareholders is currently borne indirectly by all shareholders).

Some concern was expressed about only reduced services (if any) being available to overseas shareholders under the Model 3. Some respondents supported a mandatory minimum service level to be provided by all nominees if Model 3 is adopted, such as holding shares, receiving dividends, passing on shareholder communications and allowing the UBO to attend and vote at general meetings. Some respondents suggested that mandatory minimum service levels would need to be imposed by regulation.

Many respondents (including intermediaries) explained that intermediaries currently already offer many of the services that respondents wished to see as part of a minimum services offering in any move to Model 3.

Individual shareholders expressed their general concern about a loss of their direct rights enforceable against the company in any mandated move to the intermediated securities chain.

Interim recommendation 6 – Where intermediaries offer access to shareholder rights, the baseline service should facilitate the ability to vote, with confirmation that the vote has been recorded, and provide an efficient and reliable two-way communication and messaging channel, through intermediaries, between the issuer and the UBOs, as described above.

This interim recommendation was related to a potential move to the intermediated securities chain under Model 3.

There was general support for a baseline service from intermediaries in any move to Model 3. Issuer respondents made clear that they were not in favour of new direct rights between the UBO and the company, rather they wanted to improve digital communications between companies and the registered shareholder (through changes to the Companies Act) on the one hand and on the other hand they generally supported improvements to communications up and down the intermediated securities chain.

Some respondents were concerned about the potential cost of putting in place a new two-way communications system up and down the intermediated securities chain and who should pay for it – given that a number of intermediaries and some technology providers are already providing many of the services that respondents considered a sensible baseline service level. A number of respondents mentioned the SRDII common language model as the most efficient choice for effecting two-way communications up and down the intermediated securities chain, in particular as it has already been implemented in the EU

Concern was expressed by some respondents about both the physical capability and the commercial appetite of nominees to take on so many additional individual shareholders in a relatively short period of time if there is a move to Model 3. Practical concerns were raised around on the ability to carry out KYC/AML checks, obtaining indemnities for lost share certificates and the ability of nominees to

service shareholders in overseas jurisdictions. Some respondents queried the commercial appetite of nominees to take on holders of a small number of shares in a single company – and whether regulation would be needed to ensure all shareholders are serviced by nominees even if there are not strong commercial incentives to do so in some cases.

Once respondent noted that shareholders already have the right to confirmation of electronic voting under the Companies (Shareholders' Rights to Voting Confirmations) Regulations 2020, although as implemented in the UK, the company is only required to provide the voting receipt to the registered shareholder / proxy; there are no obligations to transmit the voting receipt through the intermediated securities chain.

Some respondents were supportive of "letting the market decide" regarding the range and cost of services to be offered by intermediaries to UBOs; others were concerned that without a minimum service level many UBOs could become disenfranchised.

Some individual respondents (a minority) did not want to see a move to digital communications only and were wedded to the continued receipt of paper communications by post from companies.

Interim recommendation 7 – Following digitisation of certificated shareholdings the industry should move, with legislative support, to withdraw cheque payments and mandate direct payment to the UBO's nominated bank account.

Issuer respondents and registrars did not support any move to direct payments from the company to UBOs – they strongly prefer to continue with the existing practice whereby companies pay to the first registered holder nominee shareholder in the CSD and payments are then distributed through the intermediated securities chain; that in fact was what Interim recommendation 7 intended but would have been clearer had the words "through the intermediated securities chain" been added at the end of the recommendation. Concerns were expressed, for example, that a direct payment of a dividend from the issuer to a UBO requires timely, granular disclosure of 100% of all intermediated holdings which would be challenging, given the underlying nominee holdings are usually pooled. Accordingly, this would give rise to reconciliation issues.

Most respondents were highly supportive of removing payments by cheque and requiring payments to be made fully through electronic means. A number of respondents noted that various issuers have already begun withdrawing cheque payments as an option to certificated holders without much resistance. One respondent doubted that any new legislation would be needed to support this move as it is already happening at individual issuers.[23]

One respondent noted that this change can be effected by listed companies changing their articles of association if a sufficient majority of shareholders agree. The same respondent also suggested that ending cheque payments and requiring investors to provide issuers with their bank account details could help to prompt untraced shareholders to come forward.

A minority of individual respondents favoured the retention of payments by cheques for so long as they remain supported by the banking industry.

[23] The Companies Act does not mandate the form of payments to be made to shareholders. The method of payment of dividends to shareholders is set out in a company's articles of association (which typically permit both cheque and electronic payments).

Appendix 1: Glossary of Terms

Central securities depository or CSD	An organisation that operates an electronic system or the recording and settlement of uncertificated securities.
Companies Act	UK Companies Act 2006 (as amended).
Corporate sponsored nominee or CSN	A corporate sponsored nominee or CSN is a way for retail shareholders to hold shares electronically. It works by removing investors names from the main register and holding them together with other investors in a nominee company. A separate register of underlying individual investors is maintained by the nominee.
CREST	The central securities depository in the United Kingdom.
Custody	The process by which a financial institution holds securities on behalf of a client and assumes responsibility for their safekeeping and administration.
Dematerialisation / dematerialised	The issue of securities by companies without paper certificates to evidence title or the transformation of existing paper, certificated securities into electronic form. A dematerialised security is represented by an entry in an electronic register.
Digitised share register	A digital version of the register of required to be kept by section 113 of the Companies Act. Our proposals envisage that members who hold shares in paper form on the implementation date would have their certificated holdings automatically converted to the digital register. This digitised share register would be maintained alongside the "operator record" which records shares in the company held through CREST.
DRIP or dividend reinvestment plan	A plan under which shareholders can elect to receive shares instead of receiving a cash dividend.
ECCTA 2023	The Economic Crime and Corporate Transparency Act 2023
FCA	UK Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
GDPR	Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (United Kingdom General Data Protection Regulation), as it forms part of UK law by virtue of section 3 of the European Union (Withdrawal) Act 2018.
Interim Report	The interim report of the Digitisation Taskforce published on 10 July 2023.
Interim recommendations	The recommendations contained in the Interim Report, which are superseded by the recommendations in this Final Report.
Intermediary	An individual or, more commonly, an organisation which holds an interest in investment securities on trust for another, who may be another intermediary or the ultimate investor.
Intermediated securities chain	Interests in investment securities which are held by participants through a chain of intermediaries.

Investment securities	Instruments issued by a company in order to raise money, which include shares.
ISO 20022	A multi part International Standard prepared by ISO Technical Committee TC68 Financial Services. It describes a common platform for the development of messages.
Issuer	The company which issues the investment securities, in this case shares.
KYC	Know Your Customer checks which are required before taking on new clients; for intermediaries this means validating a client's name, address and date of birth, checking for "politically exposed persons" and sanctions screening.
Nominee	An entity or individual that holds shares on behalf of the beneficial owner of the shares. They are the registered owner of the shares but they do not have any rights or obligations as shareholders.
Overseas branch register	A register of members permitted to be kept pursuant to s.129 Companies Act for members resident in certain countries and territories listed in s. 129 Companies Act.
Register of members	A register of all the shareholders in a company, which is required to be kept by section 113 of the Companies Act. It comprises two parts: the "issuer record" or "certificated register" which includes members who hold securities in paper form; and the "operator record" which includes members who hold securities through CREST.
Retail investor	An individual who purchases investment securities such as shares in a non-professional capacity.
Section 793 of the Companies Act	Part 22 of the Companies Act provides UK public companies with a mechanism for obtaining information about interests in their shares. Broadly, a UK public company may issue a notice pursuant to section 793 (a "section 793 notice") to any person whom the company knows or has reasonable cause to believe to be interested in the company's shares (or being so interested at any time in the preceding three years). The section 793 notice would require the recipient to confirm their interest and provide certain information regarding its interest in those shares. A recipient failing to comply with a section 793 notice could become subject to civil and criminal sanctions – for example, the company may apply for a court order imposing transfer or voting restrictions on the relevant shares. Shareholders of the company holding at least 10 per cent. of the voting rights have the power to require the company to issue a section 793 notice. The company is also required to keep a register of interests disclosed through section 793 notices and that register must be kept available for inspection. In addition to Part 22 of the Companies Act, other requirements relating to the identification of beneficial ownership in companies include: • Part 21A and Schedule 1A to the Companies Act requires certain companies and LLPs to produce, keep and maintain a dedicated register of people with significant control over that company (a PSC register); and • Part 1 of the Economic Crime (Transparency and Enforcement) Act 2022 provides for the creation and maintenance of a register

	of overseas entities by Companies House and contains requirements for overseas entities owning UK property to apply for registration and provide information about their beneficial owners.
Shares	Investment securities which give the legal owner of the security (the "shareholder") an equity stake in the company.
Shareholder Rights Directive II or SRD II	Directive (EU) 2017/828, which amended the existing EU Shareholder Rights Directive (2007/36/EC) to further encourage long-term shareholder engagement and increase transparency.
Ultimate beneficial owner or UBO	The person with the ultimate beneficial interest in investment securities, at the end of an intermediated securities chain. An ultimate investor may be an individual, an institution holding securities on its own behalf, or a fund which manages investments on behalf of individuals or corporate bodies.

Appendix 2: Terms of Reference

Draft principles to guide the work of the Digitisation Taskforce

1. **Digitisation must produce benefits**

Digitisation should provide net benefits, and any model for digitisation will need to be supported by evidence. Paper certificates should be eradicated with costs apportioned in a fair and balanced way. Specifically, digitisation should reduce costs within the system, improve efficiency of communication between issuer and investor, and as far as possible should be achieved in a future-proofed way.

2. **Rights of intermediated investors**

Ultimate investors who hold shares with intermediaries should be able to effectively and efficiently exercise the rights associated with direct share ownership including voting, receiving information and other corporate actions. The ability to exercise such rights as a default should be universal, irrespective of the intermediary that an investor uses.

3. **Rights of existing certificated shareholders**

The removal of paper certificates should not result in the degradation of the rights of current holders of paper certificates to, for example, vote, receive information and participate in corporate actions.

4. **Issuer rights must be improved**

Any model for digitisation should increase shareholder transparency enabling issuers, investors, and intermediaries to more effectively and efficiently communicate with a company's entire shareholder base including investors as beneficial owners who hold shares with intermediaries.

5. **Transition plan**

Any model must be predicated on a logical and measured transition plan that minimises disruption and costs for issuers, intermediaries, and investors.

6. **Efficient structure**

To drive efficiencies and align with other advanced economies, the UK capital markets – both public and ideally private - should transition to having all digitised securities governed by a single set of rules and regulations. Consideration should also be given to how a reformed UK system would work efficiently with international systems.

7. **Security**

Any model for digitisation should maintain an appropriate level of security and fraud prevention measures.

8. **Digitisation**

Digitisation should improve, and potentially automate, the arrangements for the holding and settlement of shares and the exercise of shareholder rights including communications between issuers, intermediaries, and investors.

The market should consider all digitisation options available, provided they meet the criteria presented above.

Appendix 3: List of Respondents

Below is a list of principal respondents (excluding individual respondents).

Companies
Shell
M&S
BP
Shepherd Neame Limited
HSBC Holdings Plc
Young & Co.'s Brewery Plc
Rio Tinto Plc
Aviva Plc
Phoenix Group Holdings Plc
Henry Boot Plc
M.P. Evans Group PLC
Argos Group Limited
Dowlais Group
Invidior

Industry Bodies
TheCityUK
Chartered Governance Institute UK & Ireland
Quoted Companies Alliance
UK Finance
AFME
100 Group
Innovate Finance
CBI
PIMFA
City of London Law Society and the Law Society
GC100

Shareholder Bodies
ShareAction
Sharesoc
UKSA

Registrars
Computershare
Share Registrars
Avenir Registrars Limited
Link Group

Intermediaries
Minerva Analytics
Hargreaves Lansdown
PrimaryBid Limited
Interactive Investor
Archax

Other
Proxymity
Instant Assets Hosted Services Limited
The First Foundation
Northpoint Strategy
Reclaim Fund Ltd
Direct Digital Shareholdings

Appendix 4: The Models Proposed in the Interim Report

In the Interim Report four possible models for digitisation were proposed. These are copied below in italics.

*1) **The Digitised Share Register / Model 1** Essentially a digital version of the current system, where a subsidiary register in digitised form is maintained by an intermediary, typically the current registrar. This would involve electronic transfers between this register and the central securities depository ('CSD') in which all currently dematerialised shares are recorded and settled post-trade (in the UK this is the CREST system operated by Euroclear UK & International). The advantages put forward for this option are as follows:*

- *It replicates the current system, so is familiar to paper-based shareholders*
- *It preserves a choice currently available to shareholders to be on a register other than that maintained by the CSD*
- *It builds on linkages already in place between registrars and CREST*
- *It obviates the need for certificated shareholders to identify and go through KYC procedures with a nominee to hold and administer their dematerialised interests. We note that many certificated shareholdings are modest in value and so the UBOs of many certificated holdings may not be of much interest to the platforms they might seek to join*
- *It was asserted by some stakeholders we spoke to that this would be a lower cost option than the alternatives below.*

However, it retains one aspect of the current system that many of those consulted wish to see removed – a second register of shareholdings, with consequential friction as shares move between the two registers.

*2) **Model 2** A second alternative would be to enhance the ability of certificated shareholders to become direct members of CREST. The advantage of this would be that the individual shareholder would remain directly on the issuer's share register in their own name, as they were as certificated shareholders. However, in this case the shareholder would need to seek a sponsor to manage their account with CREST and so this would be a high-cost option for typically low-value shareholdings. Additionally, we note that there are increasingly few direct members of CREST, and the platforms we consulted with advised they rarely see any interest to do so.*

Accordingly, we do not see this as a viable option, due to the costs involved and the lack of any meaningful support.

*3) **The intermediated securities chain - Model 3** The third alternative would be to mandate all certificated shares to be moved to the CSD, intermediated and administered through a nominee. This is the model through which the vast majority of digitised shares are currently held and administered. This would bring all shareholdings into a single CSD, removing the need for movement between sub-registers and the CSD. It would, however, require all certificated shareholders to identify and be accepted by a nominee to act on their behalf.*

We believe this represents the leading model for digitisation of paper certificates, especially when enhanced by the improved transparency and communication obligations recommended later. We will test this further in the second phase of our work. We have not found any evidence that certificated shareholders, once dematerialised, would have a preference as to whether their interests are held through the CSD or recorded in a sub-register outside the CSD – their original preference was simply to receive a paper certificate. If this is to be the preferred model for digitisation it will require currently

certificated shareholders to be intermediated by a nominee of their choice or, in the first instance, a nominee arrangement facilitated by individual issuers or a centralised nominee.

*4) **Model 4** The fourth model suggested was to re-imagine the securities holding, trading and settlement framework, stepping beyond current infrastructure to envisage the possibilities that would arise from adopting Distributed Ledger Technology ('DLT'). Under this model, all transactions and actions would be confirmed by all parties on inception, which would remove the need for many of the current reconciliations and communications running through the intermediation chain.*

It is difficult to fully assess the possibilities, advantages and risks arising from a step change to DLT architecture in this review, given that the technology is still at an early stage of development and adoption. At the outset of our review, we determined that our ambition was to bring forward practical steps to improve the current architecture of share registration, trading and settlement, together with enhancing access to and expression of shareholder rights, all in the near term. We consider that any progress, after years of false starts in this area, is better than no progress, and we need to be realistic about what is achievable immediately. We are aware that HMT and other working groups inside government, as well as at the FCA, are exploring the possibilities that DLT would unlock.

We are also mindful that in Australia the proposed replacement of the CHESS clearing and settlement infrastructure (the Australian equivalent of CREST) using DLT was cancelled after several years of implementation planning and estimates of some AUS$500million of expenditure. The project failed due to its scale, complexity and transition challenges. The UK clearing and settlement infrastructure handles significantly more volume that its Australian counterpart, so the timescale to contemplate a re-platforming to a new technology should not be underestimated. We are sure that its time will come, but this is likely to be beyond the envisioned timetable for the implementation of the recommendations of this report.

In the 'Next steps' section, however, we suggest that in the second phase of this Taskforce's work there is an opportunity to explore further where adoption of DLT could be beneficial to enhancing UK market infrastructure and competitiveness. We would also observe that transition to DLT would be greatly facilitated by all UBOs having a digital identity, a step again well beyond the scope of this report but one which an increasing number of commentators highlight as advantageous for online security and identity protection. There will also be the important question of interoperability across jurisdictions and markets to consider.