Dematerialisation Market Action Taskforce

UK Implementation Plan for the Withdrawal of Paper Share Certificates

July 2026

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1. Foreword

Dear Economic Secretary,

In July 2022, I put the final full stop in place on the UK Secondary Capital Raising Review. In that Review, amongst other things I identified the drive to digitisation of shareholdings as an essential part of the UK capital markets reform programme and recommended the establishment of a Digitisation Taskforce to take it forward.

On the back of the Taskforce's final report in July 2025 you established the Dematerialisation Market Action Taskforce (DEMAT) in October last year. The task set for us was clear: to deliver an implementation plan for the withdrawal of paper share certificates as a first step and then the full digitisation of share ownership in the United Kingdom.

DEMAT's terms of reference asked us to deliver that by way of three objectives:

- firstly to develop a detailed implementation plan for the market for the withdrawal of paper share certificates before the end of 2027 – this is known as Step 1;

- secondly to begin work on identifying the necessary improvements that need to be made to the UK's intermediated shareholding system – i.e. where you hold digitally through a nominee – known as Step 2; and

- thirdly to put together a detailed plan for all shareholdings to transition into the intermediated shareholding system – known as Step 3.

This report delivers on the first of those objectives, setting out a clear and actionable roadmap for the removal of paper share certificates which the market and government will implement before the end of 2027. Paper shares will no longer be legal evidence of share ownership and will in effect become obsolete – to be replaced by digital registers for those who wish to continue to hold their shares directly.

The report also sets out the considerations to be taken into account when determining the precise implementation date, and I will write to you in the coming weeks with our recommended date.

Work has also begun with market participants to identify the actions needed for Steps 2 and 3 and the report includes preliminary observations on certain measures and issues relating to those steps that will be considered and resolved in DEMAT's second report anticipated for next year.

I want to emphasise clearly that Step 1 is a pit stop – a break for drinks - on the road to the full transition to the intermediated shareholding model, which will start by the end of this Parliament. It is not the destination. The removal of paper share certificates as evidence of ownership title and their replacement by digital registers is an interim measure designed to unlock immediate benefits for shareholders, issuers and the market as a whole, while maintaining investor protection and confidence ahead of necessary improvements being carried out to the intermediated shareholding framework to which formerly certificated shares will transition from Step 3.

The digital register arrangements at Step 1 are designed to be fit for purpose, proportionate and not over-engineered, while still ensuring appropriate investor protection. The regulatory and legislative changes required at Step 1 have been minimised deliberately, using existing market infrastructure where possible, so as to preserve energy and focus for the ultimate aim - namely the full implementation of the intermediated shareholding model at Step 3. Every design decision in this report has been taken with that end state firmly in mind.

The report sets out a comprehensive implementation plan covering the legislative, operational and practical changes necessary to give effect to the digital register model and to withdraw paper share certificates as evidence of title.

It provides guidance for shareholders and other market participants on how to prepare for and manage the transition. And, of critical importance, it sets out the principles of a public awareness campaign designed to ensure that all stakeholders, including retail shareholders and particularly those who are more vulnerable or digitally excluded, are fully informed and supported throughout the process.

I also want to address the exciting and rapidly evolving area of tokenisation. The dematerialisation and tokenisation initiatives should be developed side-by-side and, where appropriate, consolidated into a coherent deployment strategy to ensure that the UK's end state is consistent with tokenised market structures being developed domestically and internationally.

The dematerialisation programme sits within the Government's wider Wholesale Financial Markets Digital Strategy and alongside the appointment of Chris Woolard as the digital markets champion to drive forward wholesale market digitalisation, including tokenisation. Together, these initiatives represent a once-in-a-generation opportunity to modernise the UK's share ownership infrastructure and position the United Kingdom as a global leader in digital capital markets. The appointment of Chris was a big move forward and Chris and I have been and will continue to liaise closely in this area in the coming months and will ensure that we continue to be joined up.

There has been substantial engagement as part of this report. We have consulted extensively with stakeholders including amongst others issuers, registrars, brokers, institutional and retail investors, intermediaries, trade bodies, civil society organisations, HM Treasury, the Department for Business and Trade and the Financial Conduct Authority. Those conversations have been characterised by a constructive and collaborative, tiggerish spirit: a shared recognition that we walk this reform road together or we don't walk it at all and that these reforms are necessary – and in fact long overdue - that they are achievable and that they must be delivered with care and with the interests of all stakeholders, particularly individual shareholders, at their heart.

I would like to thank the members of DEMAT for their time, their expertise and their willingness to work at pace. I am also deeply grateful to Johannes Poon and Megan Williams as my secretariat, who have worked tirelessly to bring this report together. And I also thank all of the many stakeholders who have given so generously of their time and insight throughout this process so far.

I am confident that the recommendations in this report will deliver a more efficient, secure and modern system of share ownership for the United Kingdom.

But this is only the beginning. The withdrawal of paper share certificates is the first step. We intend to publish a further DEMAT report next year that will set out a route map for improving the intermediated securities system and for moving all shareholders in the UK on to it, starting by the end of this Parliament.

This report addresses what is in some senses the plumbing that sits underneath the headline reform initiatives that we as a market have undertaken in the last few years, but it is critically important because an efficient, well-functioning system cannot have pipes that leak. And these changes will make it much easier, quicker and more transparent for retail investors to hold and trade shares in the UK market, driving the continued development of an equity culture and contributing to the further development of a thriving stock market.

It is demonstrably the case that on the back of the reforms of the last six years or so the UK markets are once again match fit and that the UK now has the least frictional listing regime in Europe. And the innovation, tiggerish approach and vision that has characterised this process is being applied to other areas of our markets too – for example in relation to PISCES, the world's first regulated public/private cross-over market, as well as the new public offer platform (POP) regime that has recently been deployed for the benefit of UK retail investors in an IPO context.

With the implementation of this first DEMAT report we will start to future-proof the plumbing that underpins our reformed capital markets as well. And continue to drive forward the real narrative of the UK capital markets – one of innovation, ambition and market-leading reform.

Mark Austin CBE
Chair, Dematerialisation Market Action Taskforce
July 2026

2. Executive Summary

Purpose

This report has been prepared by the Dematerialisation Market Action Taskforce ("**DEMAT**"), which was established in October 2025 by HM Treasury on the back of the final report of the Digitisation Taskforce, published in July 2025, to deliver an implementation plan for digitising share ownership in the UK.

The report refers to two key models of share ownership:

- "**Model 1**", or as we will call it in this Report the "**digital register model**", is the transitional arrangement that will apply at Step 1. Under Model 1, paper share certificates will no longer be evidence of ownership title. Formerly certificated shareholders will continue to be recorded directly on their company's shareholder register, just as they are today, but ownership of title will be solely evidenced by the electronic record on the digital register. Model 1 operates alongside the existing CREST system and will in essence be a temporary arrangement.

- "**Model 3**", or what we will call the "**intermediated model**", is the end-state arrangement. Under Model 3, shares of publicly traded UK companies will be issued in fully digital form and held through a central securities depository (CSD) such as CREST. In simple terms, this means that shareholders will hold their shares either directly in a CSD, e.g. in the case of shareholders who are CREST participants, or through intermediaries (such as banks, brokers, investment platforms or, in the case of certain institutional shareholders, dedicated nominees) rather than having their name recorded directly on a company's shareholder register.

The UK's move away from paper share certificates is being carried out in three stages:

- Step 1 involves replacing existing paper share certificates with digital share registration. In practice, this means that, for those shareholders who hold outside a CSD, shareholders' names and the shares they own will be recorded electronically on a digital register of members, rather than being evidenced by a paper certificate. The system will work much as it does today, but without the cost, security risks and delays generated by paper certificates.

- Step 2 involves making improvements to the intermediated system, the system through which most shares are already held through third-party nominees and brokers, so that the people who ultimately own shares can receive communications from issuers and exercise the rights associated with those shares effectively and efficiently through those intermediaries.

- Step 3 is the final stage, whereby shares on the digital registers will move onto the improved intermediated model, completing the transition to a fully digital model of share ownership.

Key Measures for Step 1

The key measures to be implemented under Step 1, as set out in this report, comprise the following:

1. **Withdrawal of paper share certificates**: Paper share certificates will no longer constitute evidence of ownership title for shares that fall within the scope of the digital register model, and ownership will solely be recorded on the company's digital register of members.

   The scope of the digital register model should encompass any UK incorporated company's shares that are admitted to trading on a regulated or SME Growth Market in the UK.

   Implementation: DBT and HMT.

2. **Modernising share transfer requirements**: The laws governing how shares are transferred (including the Stock Transfer Act 1963) should be updated to allow share transfers and related processes to be carried out digitally, including through the use of electronic signatures.

   Implementation: DBT and HMT.

3. **Operation of digital registers**: DEMAT will develop the "Step 1 Operational Standards" through industry-led protocols and practice established collaboratively between EUI, shareholder associations and representatives from the issuer, registrar and broker communities. These operational standards are expected to be endorsed by the Government following their publication around summer 2027.

   Shareholders should be able to access their holdings through online portals.

   Implementation: EUI, shareholder associations and representatives from the issuer, registrar and broker communities to develop the Step 1 Operational Standards. DBT and HMT to address certain operational aspects within the Statutory Instrument. EUI to review and adjust CREST Rules.

4. **Taking security over shares**: The report considers the issues relating to security arrangements over shares (for example, as collateral for a loan). This includes how a collateral taker may evidence their right to transfer shares when enforcing security, and what steps should be deemed sufficient to support the creation of an effective fixed charge and security financial collateral arrangement, over in-scope shares under the digital register model.

   Implementation: DEMAT to undertake further sounding exercise with lending community. DBT and HMT to consider legislative proposals.

5. **Competing takeover offers**: The report addresses the issue of preventing shareholders from accepting more than one competing takeover offer for the same shares in the

absence of paper certificates.

Implementation: Takeover Panel.

6. **Stamp duty and Stamp Duty Reserve Tax (SDRT)**: The withdrawal of paper certificates and digitisation of the share register, and movements between the digital register and CREST, will not trigger any stamp duty or SDRT charges, provided that such movements do not form part of a transfer on sale or otherwise for consideration but merely result in ownership being recorded by a different means. Consideration will however need to be given to how transfers of shares held on a digital register are processed from a stamp duty and SDRT perspective. Ideally, the digital register model would be introduced at the same time as the planned replacement of stamp duty and SDRT with a single tax on transfers of in-scope securities and introduction of an online portal to digitise the reporting and payment of that tax – proposals which HMRC intends to implement in 2027. This report considers the implications of introducing a digital register model in advance of stamp tax reform.

   Implementation: HMRC.

7. **Issuer and registrar preparatory actions**: Guidance and template materials will be published to help market participants prepare for the transition to the digital register model.

   Implementation: Issuers and registrars to consider revising registrar engagement terms. GC100 to lead on the development of model provisions for articles of association which may be adopted by issuers following Step 1.

8. **Awareness campaign**: A public awareness campaign will be delivered to explain the Step 1 reforms to shareholders and other market participants, with accessible communications aimed at a range of audiences including retail investors, civil society organisations, and digitally excluded individuals.

   Implementation: Coordinated by DEMAT, and delivered through issuers, registrars, intermediaries, investment platforms and civil society organisations including Age UK and Citizens Advice.

We envisage that these Step 1 measures will primarily be implemented through a statutory instrument (a piece of secondary legislation to be passed under powers in Part 21 of the Companies Act), as recommended by the Digitisation Taskforce. We recommend that the operational standards are developed collaboratively by industry participants and endorsed by the Government to encourage compliance.

Timeline

These measures for Step 1 will take effect in late 2027. The exact date will be confirmed following further engagement with market participants on the most appropriate weekend for system changes.

Steps 2 and 3 Preliminary Observations

Appendix 5 to the report addresses preliminary views on certain measures relating to Steps 2 and 3. These matters are flagged for further work and are not the subject of final recommendations at this stage. They will be worked through and resolved in DEMAT's second report addressing Steps 2 and 3, which is expected to be published in the summer of 2027.

3. Principles

The recommendations set out in this report have been made based on the following guiding principles:

1. Step 1 is a pit-stop on the road to the full implementation of the intermediated model.

2. Given that the digital register model at Step 1 will serve as a temporary arrangement before the transition to the fully intermediated model of share ownership at Step 3, the design of the digital register arrangements at Step 1 should be “fit for purpose”, proportionate and not over-engineered, while still ensuring investor protection. As a result, the regulatory and legislative changes required for Step 1 should be minimised, with existing infrastructure, systems and established industry standards used where possible to focus on the ultimate aim of implementing the intermediated model.

3. The adopted approach for the digital register model at Step 1 should nonetheless adequately protect the integrity of company share registers, shareholder rights, investor choice and accessibility with respect to existing holders of shares in paper certificate form.

4. Digital Register Model Scope

In line with the approach recommended by the Digitisation Taskforce last year, we recommend that the digital register model should apply to the UK-traded shares of UK incorporated companies. The determining factor for the applicable scope should be the public trading status of the security, rather than the type of issuer.

For the purposes of this report, "**UK-traded**" means that the class of shares is admitted to trading on a UK regulated market (such as the LSE's Main Market) or an SME Growth Market (such as AIM or the AQSE Growth Market).

Recommendations:

a) Publicly traded shares

The digital register model should apply to the UK-traded shares of any UK incorporated company.

Special treatment should apply to shares held on an overseas branch register and shares that are subject to restrictions under Category 3 of Regulation S of the U.S. Securities Act of 1933. See section 6 of this report for further details.

b) Transitional arrangements

We believe that a transitional period should apply to shares that cease to be UK-traded in order to minimise the administrative burden associated with delistings. For example, a company that is taken private should not be required to issue a large volume of paper share certificates to shareholders that are still in situ prior to the completion of the statutory process under the Companies Act by which an acquiring company compulsorily acquires the shares of remaining minority shareholders.

We propose that the application of the digital register model should therefore extend to shares after such shares cease to be UK-traded until the earlier of: (i) the passing of a shareholder special resolution disapplying the application of the digital register model to such shares; and (ii) the date falling two years after such shares ceasing to be UK-traded.

Illustration of the scope of the digital register model

Type of security	Subject to the digital register model?
UK-traded shares of a UK incorporated company	✓ Shares may include ordinary shares as well as preference shares.
UK-traded warrants of a UK incorporated company	✗ A warrant is not a share.
Shares of a UK incorporated company that are not admitted to trading on a UK regulated or an SME Growth Market	✗
UK-traded shares of a non-UK incorporated company	✗ Step 1 does not apply to non-UK incorporated companies.
Shares of a UK incorporated company that are only admitted to trading on an overseas trading venue	✗ The shares of UK incorporated companies that are exclusively listed or traded on an overseas trading venue would not be subject to the mandatory scope of the digital register model.
Enhanced voting rights shares of a UK incorporated company	✗ Where a UK listed company has multiple classes of shares, some of which are not publicly traded (for example, enhanced voting shares held by founders), the digital register model requirements would not apply to those non-traded classes which may continue to be held in paper certificate form.
Debentures and debenture stock of a UK incorporated company	✗ The existing Companies Act requirements for certificates in the case of shares, debentures and debenture stock (under sections 769 and 776) are already, in effect, permissive in that they only apply if the conditions of issue of the securities require certificates. By contrast to the established market practice regarding shares (where articles of association almost invariably require share certificates), full advantage is taken by companies of the ability to issue debentures with or without certificates

Type of security	Subject to the digital register model?
	depending on the terms and conditions of the bonds or other debt instruments and we do not see a case for change.
UK-traded shares of a UK incorporated company that are held on an overseas branch register	OBRs should be capable of accommodating both paper certificated and non-CREST digitised holdings, recognising that the ability to digitise will depend on the rules and infrastructure of the relevant overseas market. See section 6.1 of this report for further details.

5. Key Digital Register Model Measures

5.1 Withdrawal of paper share certificates

We recommend that the digital register model be implemented through the statutory instrument to be passed under powers in Part 21 of the Companies Act during 2027 (the "**Statutory Instrument**") that would provide for the following:

a) Withdrawal of Share Certificates as Evidence of Title

Section 768 of the Companies Act ('Share certificate to be evidence of title') should not apply to certificates relating to shares in-scope of the digital register model (as set out above).

There should be no requirement for shareholders to return or destroy their paper share certificates. These certificates may be retained at the discretion of the holder but the Companies Act would no longer confer on such paper certificates any evidential value as to ownership title.

b) Disapplication of Requirements for Issuance of New Share Certificates

The Statutory Instrument should:

i. Disapply requirements for issuers to issue new share certificates following an allotment or transfer of in-scope shares; and

ii. Override any provisions to the contrary in an issuer's articles, resolutions or terms of any share issuance or transfer in relation to in-scope shares.

c) Digital Register Requirements

The Statutory Instrument should clarify that evidence of ownership of in-scope shares is provided by way of the electronic record on the digital register.

We would not object to the Statutory Instrument imposing a requirement that the register of members of issuers, whose shares would be in-scope of the digital register model, should be kept in digital form. However, given the existing prevalence of digital registers under the current company law regime, any requirement as to the format of the digital register should not be overly prescriptive.

We hold a similar view with respect to the "operator register" of uncertificated shares which is required under the Uncertificated Securities Regulations 2001. Such registers are already maintained in digital form in practice.

d) Amendments to the Uncertificated Securities Regulations 2001 (USRs) Terminology

At present, Regulation 3 of the USRs provides for the following definition for "uncertificated" and "certificated":

i. *"uncertificated", in relation to a unit of a security, means (subject to regulation 42(11)(a)) that title to the unit is recorded on the relevant Operator register of securities, and may, by virtue of these Regulations, be transferred by means of a relevant system; and*

ii. "certificated", in relation to a unit of a security, means that the unit is not an uncertificated unit.

"Uncertificated" therefore refers specifically to securities settled through a "relevant system" operated by a CSD which is recognised as an "Operator" under the USRs. Currently, the only Operator recognised under the USRs is Euroclear UK and International (EUI), which runs the settlement system CREST. "Certificated" refers to securities held outside a relevant system operated by a CSD such as EUI, i.e. held directly through paper share certificates.

We are of the view that the existing dichotomy in the USRs - uncertificated vs certificated - should be retained. Adding a third category for "formerly certificated, but not yet uncertificated" shares would make the USRs more complicated and difficult to unpick when we move to Step 3.

Our proposed approach to distinguishing between paper certificated shares versus shares held on the digital register model, while retaining the existing dichotomy, is to formulate the two categories as:

i. "system shares" meaning uncertificated shares held through the Relevant System; and

ii. "non-system shares" covering both traditional paper certificated shares and those shares which will be held on the digital register model. With respect to this category, there may be instances within the USRs and the CREST Rules where it would be helpful to apply terms distinguishing between paper certificated and paperless securities held through the digital register model.

In addition, for similar reasons, we suggest renaming the terms "dematerialising" and "rematerialising" in the USRs to clarify that these refer to the transfer of securities into and out of a Relevant System, rather than between paper and digital. "Dematerialising" could be changed to "Depositing" (or "Deposit"). "Rematerialising" could be "Withdrawing" (or "Withdrawal").

Further, companies with shares that are in scope of Step 1 would be "participating issuers" under the USRs which means that their obligations to maintain an issuer register of members would be set out in Schedule 4 of the USRs rather than section 113 of the Companies Act. Schedule 4 of the USRs will therefore need to be updated to reflect the requirements referred to in this section 5.1 that apply to digital registers for in-scope shares following Step 1.

We recommend that HMT liaises with EUI in updating the USRs and CREST rules to address the above.

The overall impact of these changes would be that share certificates would automatically become obsolete for in-scope shares from the Step 1 effective date and there would be no change to the balance of holdings which would be recorded on the digital share registers. Current holders of paper shares will not need to take any action to make this happen.

5.2 Modernising stock transfer requirements

The Stock Transfer Act 1963 and the Stock Transfer Act (Northern Ireland) 1963 currently enable the use of specified transfer forms for the transfer of shares.

Under section 544 of the Companies Act, shares may be transferred in accordance with an issuer's articles of association, subject to the Stock Transfer Act 1963 and regulations under Chapter 2 of Part 21 of the Companies Act (which enable title to securities to be evidenced and transferred without a written instrument).

Section 770 of the Companies Act presently requires (subject to exempt transfers) a "proper instrument of transfer", being a stampable instrument, to be delivered to the issuer before a transfer can be registered.

We recommend the following changes be implemented by the Statutory Instrument:

a) The Stock Transfer Act 1963 and Stock Transfer Act (Northern Ireland) 1963 be amended to clarify that stock transfer forms and the surrounding transfer process may be digitised for in-scope shares;

b) Section 770 of the Companies Act, which currently requires a "proper instrument of transfer" to be delivered to the issuer, be amended to accommodate electronic transfer instructions;

c) Electronic signatures and electronic authority be expressly provided for under the Stock Transfer Act 1963 as valid means of authenticating transfer instructions and corporate action acceptances. This would include where documents are required to be signed as a deed; and

d) Any provisions to the contrary in an issuer's articles of association, resolutions or terms of any share issuance or transfer be overridden and disapplied by the Statutory Instrument or the changes to the Stock Transfer Act 1963.

It is also essential that the revised legal framework for transfers aligns with HMRC's proposed changes to the stamp tax regime, which involve the replacement of stamp duty and SDRT with a single Securities Transfer Charge (STC) and the introduction of an online portal for the self-assessment and payment of STC and which are due to be implemented in 2027[1]. If the digital register model were to be implemented in advance of stamp tax reform, suitable interim processes would need to be agreed with HMRC (and relevant legislation and/or HMRC guidance updated) to ensure the proper collection of SDRT on digitised transfers outside CREST[2] prior to the registration of a new shareholder on the digitised register – see further

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[1] Modernisation of the Stamp Taxes on Shares Framework – Policy Paper; HM Revenue & Customs / 26 November 2025. More detail on the proposals can be found in Modernisation of the Stamp Taxes on Shares Framework – Summary of responses; HM Revenue & Customs / 28 April 2025.

[2] The CREST system caters for the collection of SDRT on chargeable transfers as part of the settlement process.

section 5.6 below. In our view, it would be most efficient for both sets of proposals to be implemented at the same time.

Beyond CREST transfers, we believe there is a need to retain physical transfer forms alongside the new digital alternative, particularly for off market transfers (including operation of law transmissions) that are administered and recorded by registrars. These non-system transfers encompass a wide variety of transaction types, including transfers involving joint holders, transmissions arising from bereavement, and transfers instructed by an executor or attorney acting under a power of attorney. In many of these cases, the digital processes may not readily accommodate multiple or third-party instructions.

The form that digital transfer mechanisms take outside CREST will depend on a number of factors and will need to be agreed between the registrar and its issuer clients. This may vary from registrar to registrar: some firms may regard a digital transfer as something as straightforward as a scanned transfer form or document bearing electronic or digital signatures, while others may develop functionality through their shareholder-facing web portals to enable transfer instructions to be submitted online.

The general position should therefore be that issuers (and their registrars) retain discretion on whether digital or physical processes should be deployed for in-scope shares, and that the use of paper processes should not be limited to vulnerable and digitally excluded persons. Physical processes will also continue to be used for all paper certificated shares that remain outside the scope of Step 1.

5.3 Operation of digital registers

The operational standards for Step 1 ("**Step 1 Operational Standards**") should be developed through industry-led protocols and practice established collaboratively between EUI, shareholder associations and representatives from the issuer, registrar and broker communities. These Step 1 Operational Standards would represent industry best practice, rather than imposing regulatory obligations and should be finalised in conjunction with the Statutory Instrument. We recommend that the Government endorses these Step 1 Operational Standards once they are satisfactorily developed, to set an expectation that they should be adhered to.

For illustrative purposes, Appendix 2 sets out a high-level summary of how digital registers will operate during Step 1. Appendix 3 sets out the proposed arrangements to be applied to corporate events relating to shares recorded on those digital registers.

At the same time, these processes should be underpinned by a legislative framework addressing the following matters:

a) Mandatory Shareholder Access to Their Positions on Digital Registers

The Statutory Instrument should require all issuers with in-scope shares to provide each shareholder on the issuers' register of members (under the digital register model) with the ability to access their individual shareholding position, transaction history and register of members information (relating to that individual shareholder) on the digital register.

We expect that the existing shareholder portal capabilities provided by many registrars would already satisfy this requirement.

b) Security Requirements for Transfers

Given that the digital register model does not alter the fundamental risk profile of share transfers but merely withdraws the role of paper certificates as evidence of title, we do not consider it necessary for the Statutory Instrument to impose a requirement on issuers to apply security measures when processing transfers on digital registers.

Instead, we recommend that the Step 1 Operational Standards set out high-level expectations on the security standards to be applied to share transfers on digital registers. These standards should be determined by the industry and developed collaboratively by registrars and issuers, rather than prescribed in legislation. Different arrangements will apply to on-market (CREST) transfers and off-market transfers (including operation of law transmissions), and registrars may also apply risk-based protocols, for example by reference to the value of the transfer or the circumstances of the transaction. The overarching principle should be to ensure that the security measures applied to transfers under the digital register model are no less secure than those which apply today, and that security is enhanced where it is appropriate to do so, having regard to the circumstances and value of the transfer in question. However, these measures should not be so prescriptive as to prevent registrars from adapting their processes to reflect the different risk profiles and operational requirements of different transfer types, or the specific arrangements agreed with their issuer clients.

Any such security measures should be considered in conjunction with the power to refuse registration set out in paragraph (c) below, which provides that an issuer (or its registrar acting on its behalf) may refuse to register a transfer in certain circumstances.

c) Power to Refuse Registration

The Statutory Instrument should provide issuers (and registrars acting as their agent) with a statutory right to refuse to register a transfer of shares on the digital register where the issuer or registrar is unable to verify the identity or authority of the person submitting the transfer instructions.

In doing so, the statutory framework should permit reliance on grounds analogous to Regulation 27 of the USRs which provides for the grounds to refuse the registration of a transfer of title in a number of situations, including transfers to a deceased person, minors or where the transfer instructions have not been properly authenticated.

The articles of association of issuers typically contain specific powers to enable an issuer to refuse to register a transfer, but there should be specific powers under the Statutory Instrument to help safeguard against fraudulent or unauthorised transfers in the absence of paper share certificates and executed stock transfer forms while being exercised in a manner that does not unduly disrupt established digitised transfer processes.

Under the existing framework, the presentation of a paper certificate and executed stock transfer form provides an ancillary means of validating a transfer, whereas the removal of paper certificates as evidence of title at Step 1 removes that mechanism. It is essential that issuers and their registrars are legally empowered not to process share transfers in cases where they are not satisfied that the transfer request has been submitted by a person who is entitled and authorised to instruct it.

d) Amendments to CREST Rules

EUI will review and adjust any relevant CREST Rules (and any relevant appendices thereto) to address the obligations of CREST Registrars in the context of the digital register model, including their responsibilities in relation to stock deposits and withdrawals between the digital register and CREST participant accounts.

5.4 Taking security over shares

a) The current position

Where a person takes credit risk on another person (e.g. makes a loan or assumes credit risk via a guarantee exposure, derivatives or other financial exposures), it will often require its counterparty to provide "security" – that is, an asset that the person with the credit exposure (the collateral-taker) can appropriate and sell if its counterparty (the collateral-provider) fails to perform the obligation it owes to the collateral-taker. Shares in a company can be used as security in this way. Where the collateral-taker is a regulated credit or financial institution, a security interest over shares may, in certain circumstances, result in a lower risk-based capital charge for the collateral-taker's exposure to the secured risk.

Under the existing framework for shares in paper certificated form, security (in the form of an equitable mortgage or charge) can be taken over shares by the collateral-taker obtaining delivery of the relevant share certificate together with a signed stock transfer form. This arrangement gives the collateral-taker the power to easily enforce the security where appropriate by completing the transfer and registering themselves or a nominee as the legal owner of the shares.

The removal of paper certificates as evidence of ownership title of shares raises the question of how equivalent security can be taken over shares held on a digital register outside CREST. This issue was identified in responses to the Digitisation Taskforce's Interim Report, with legal concerns raised that steps would need to be taken to find a way to take security over digital shares, which could be problematic from a legal point of view. A subset of this concern relates to existing security arrangements, where the security has been effected by the collateral-taker having custody of the share certificate together with a signed transfer form.

The CREST system already provides a recognised model for taking security over shares, known as the "escrow model". Under this model, shares are placed under the control of an escrow agent through the delivery of a TTE (Transfer to Escrow) instruction, which blocks the shareholder's ability to transfer the shares and gives authority to the escrow agent to transfer the shares to the secured party if and when the trigger event occurs. For new security arrangements under Step 1, a collateral-provider could in principle move its shareholdings into CREST, where the well-established escrow model could be used to take security over its shares. Otherwise, in a digital register model environment, a means of taking security over digitised shares is required which is equivalent to the certificated security regime.

b) Recommendation

Although we query the prevalence of security arrangements for UK-traded shares that are not recorded in the CREST system through intermediated nominee arrangements, DEMAT proposes to undertake a sounding exercise with the lending community in order to assess properly the scale and nature of the issues outlined above.

In that context, the lending community should be made aware of the dematerialisation implications for their existing security arrangements. Ultimately, as the project moves towards the intermediated model at Step 3, collateral-takers will also need to be apprised of the intermediated model implications for their security arrangements, and should be encouraged to make appropriate arrangements in due course. This may comprise transferring the shares into the name of the party taking the security or to an escrow holder, or, alternatively, moving their holdings into CREST, where the well-established escrow model can be used to take and perfect security over shares.

DEMAT acknowledges that a range of options is available to address the position of existing and future security arrangements over in-scope shares outside CREST for the duration of Step 1. This may include incorporating measures into the Statutory Instrument to permit a collateral-taker to transfer shares (e.g. into the name of a nominee) on presentation of a stock transfer form executed by or under power of attorney from the registered holder, together with a form/wording prescribed by the Statutory Instrument (or possibly a statutory declaration) in which they affirm the basis on which they have the right to do so under the terms of the security arrangement with the registered holder.

For this proposed solution, careful consideration will need to be given to the steps required to verify and authenticate security arrangements when a collateral-taker seeks to enforce its security and register a transfer during Step 1. There is a risk that, without appropriate safeguards, fraudulent or unauthorised transfer instructions could be submitted to issuers or their registrars. Consideration will also need to be given to the potential liability that may fall on issuers and registrars in this context, particularly where a registrar registers a transfer in reliance on a prescribed form of confirmation or statutory declaration that subsequently proves to be invalid or fraudulently obtained.

Further, in light of the likely structural and operational negative controls that would otherwise be required to be available to and applied by a collateral-taker under English law to create, first, an effective fixed charge or equitable mortgage over in-scope shares and, second, a security financial collateral arrangement over such shares under the Financial Collateral Arrangements (No. 2) Regulations 2003 (the "FCARs"), the Statutory Instrument (and any other relevant legislative instrument) may also need to include provisions that clarify what reasonable contractual or other controls will be deemed sufficient, as a matter of law, to create an effective fixed charge or equitable mortgage under the digital register model over charged in-scope shares, and conclusively to deem such controls to place the relevant shares into the possession or under the control of the chargee as collateral-taker for the purposes of the FCARs. These provisions should apply to both existing and new charges existing, or put in place, at any time during Step 1. We consider that such provisions should properly fall with the scope of DBT’s and/or HMT’s enabling powers with respect to in-scope shares and the FCARs.

In any event, before any definitive conclusions can be communicated, further consultation will need to be undertaken to assess the practical and legal implications of the options under consideration.

5.5 Competing takeover offers

a) The current position

The removal of paper certificates as evidence of ownership title of shares raises an issue under the Takeover Code concerning the prevention of shareholders accepting more than one contractual takeover offer in respect of the same shares.

Under the current system, there are two established mechanisms that prevent multiple acceptances:

i. *Certificated shareholders*: A shareholder with shares in paper certificated form can only accept one offer because the physical share certificate can only be sent to, and held by, one offeror's receiving agent at a time (notwithstanding the ability to apply for a replacement certificate) (as recognised in Note 4(c)(i) on Rule 10.1 of the Takeover Code).

ii. *CREST holders*: Shareholders holding through CREST can only accept one offer due to the operation of the CREST escrow system, whereby accepted shares are effectively blocked through the delivery of a TTE (Transfer to Escrow) instruction. The TTE instruction blocks the shareholder's ability to transfer the shares and gives authority to an escrow agent to transfer the shares to the offeror if and when the offer becomes unconditional (as recognised in Note 4(c)(ii) on Rule 10.1 of the Takeover Code).

If a shareholder holding via the digital register model (outside CREST) were able to accept more than one offer, this could create significant uncertainty, dependent on the size of the position and associated acceptance level for the offer, as to whether the acceptance condition for an offer has been satisfied and could create a false market in the securities of the offeree company. In an extreme scenario, if the same shares were double-counted towards two competing offers, both offerors could claim to have satisfied the minimum 50% acceptance condition, which would fundamentally undermine the orderly framework for takeovers that the Takeover Code is designed to provide.

b) Recommendation

Given the need to ensure the proper functioning of the Takeover Code, we acknowledge that one method of addressing this problem would be for the Takeover Code to be amended to provide a mechanism for receiving agents to competing bidders to share details of non-CREST acceptances with each other in order to facilitate cross-checking, subject to a requirement that the information must be kept confidential and used by the receiving agents only for the purposes of validating acceptance levels.

The aim of such a cross-checking exercise would be to identify situations where a non-CREST shareholder has accepted multiple offers. In a situation where a shareholder has purported to accept both Offer A and Offer B, there would also need to be an agreed approach for determining which acceptance would be treated as valid. For example, where a shareholder validly accepts Offer A, any subsequent purported acceptance of Offer B would be invalid unless the shareholder had first validly withdrawn their acceptance of Offer A.

DEMAT considers that any such measures could be limited to the Takeover Code (to the extent the Takeover Panel considers them necessary), rather than requiring specific provisions under the Statutory Instrument.

5.6 Stamp duty and SDRT processes

Leaving aside transfers to clearing systems or depositary receipt issuers (or their nominees), to which special rules apply, and certain transfers between connected persons, the current rules and processes applicable to the collection of stamp duty or SDRT on transfers of shares are as follows.

a) Stamp duty:

i. Stamp duty is a documentary tax payable on (physical) instruments of transfer which effect transfers on sale, i.e. transfers for consideration – and not any other sorts of transfers – at the rate of 0.5% of the amount or value of the consideration. There is currently a self-certified exemption available for transfers where the consideration is £1,000 or less, although HMRC have stated that this exemption will be removed under the new STC regime referred to in section 5.2.

ii. As noted in section 5.2, section 770 of the Companies Act currently requires a "proper instrument of transfer" to be delivered to the issuing company before a transfer can be registered, save in the case of exempt transfers (which include transfers through CREST). Section 17 of the Stamp Act 1891 makes it unlawful for a company registrar to update a share register on the basis of an instrument of transfer which has not been duly stamped.

iii. The practical effect of the legislation referred to above is that stamp duty must be paid on a stock transfer form effecting a transfer of certificated shares for consideration (above the £1,000 threshold) before the share register can be updated.

iv. Prior to changes implemented by HMRC during the COVID-19 pandemic, it was necessary to present the physical stock transfer form for stamping with an embossed red die stamp along with payment of the stamp duty. When this became impracticable during the pandemic, the procedure for "stamping" was changed. The revised process requires completed stock transfer forms to be submitted as attachments to emails to a dedicated HMRC email address, along with a payment reference so that HMRC can identify the stamp duty payment in their account and match it to the application for stamping, after which HMRC will issue an "authentication code" (a numerical code beginning with "SD") that can be entered on the stock transfer form and presented to the company registrar. A HMRC response typically takes several weeks and can take longer.

b) SDRT:

i. When CREST was introduced in 1986, facilitating electronic settlement of transfers of uncertificated shares, a new stamp tax - stamp duty reserve tax, more commonly known as SDRT - was introduced to operate in lieu of stamp duty on paperless transfers (given that stamp duty requires a physical document). The SDRT rate is the same as the stamp duty rate, 0.5%, and the principal charge applies to agreements to transfer "chargeable securities" for consideration in money or money’s worth. Shares in UK incorporated companies are “chargeable securities”.

ii. With respect to transfers through CREST, SDRT (where applicable) is collected as part of the settlement process. Company registrars are therefore able to update electronic registers to reflect CREST transfers without undue delay.

iii. Although principally designed to facilitate the collection of a 0.5% stamp tax on transfers through CREST, the SDRT charge is wider and in fact applies to any agreement (whether papered or not) to transfer chargeable securities in circumstances where such agreement is not superseded by a physical instrument of transfer which is subject to stamp duty (payment of stamp duty on any actual instrument of transfer giving effect to an agreement to transfer “franks” any separate SDRT charge payable on the agreement itself). HMRC guidance sets out the process which must be followed to pay SDRT due outside the CREST system.

iv. For completeness, CREST is not a clearing system and accordingly the special rules referred to at the beginning of this section 5.6 are not relevant to the matters covered in this report.

The confinement of charges to stamp duty and SDRT to, respectively, transfers on sale and agreements to transfer chargeable securities for consideration means that neither charge has any application to the mere withdrawal of paper certificates and digital registration of share ownership, or to movements between a digital register and CREST, where beneficial ownership does not change.

However, whilst the current rules and processes already accommodate the need to self-report payment of SDRT on agreements to transfer chargeable securities outside CREST, they do not contemplate that confirmation of that payment may be required by a company registrar in order to be able to register the transfer (because, under current law and absent a proper instrument of transfer or a transfer through CREST, no such transfer could lawfully be registered in any event).

As noted above, the current process for payment of stamp duty involves the submission by email of a stock transfer form and payment reference, with HMRC then issuing by email an authorisation code which can be entered on the stock transfer form to evidence that it has been “stamped”. It would be relatively straightforward to adapt this process so that it can apply with respect to the submission of, for example, a transfer instructed through an issuing company’s online portal (provided that such instruction can be downloaded in a pdf or other suitable format for attaching to an email to HMRC) together with the payment reference, with a view to HMRC issuing an authorisation code that can then be uploaded to the issuing company’s online portal to enable registration of the transfer.

Assuming that the processing of emails received by the HMRC stamp duty team and the cross-checking of payment references would take the same amount of time for SDRT applications as it currently does for stamp duty applications, this would undermine the benefits of having a digitised register and online transfer facility – no transfer could be registered until HMRC's authorisation code was obtained and uploaded.

It would in our view be preferable to align the introduction of the digital register model with the introduction of the new STC and online payment portal. The HMRC proposals for the STC regime envisage that a Unique Transaction Reference Number (UTRN) will be issued upon submission of the tax return on the HMRC portal rather than after the tax has been paid to ensure there are no undue delays in updating share registers.

5.7 Issuer and registrar preparatory actions

a) Articles of Association Amendments

We recommend that the Statutory Instrument be designed to override contrary provisions in issuers' articles of association, such that there would be no mandatory requirement for issuers to amend their articles of association in order to give effect to the digital register model arrangements under Step 1.

Notwithstanding this statutory override, issuers may wish to amend their articles of association voluntarily to align with the new legislative framework to avoid confusion (such as removing references to share certificates) for shareholders, company secretaries and legal advisers who consult the articles as the primary constitutional document of the issuer.

b) Registrar Engagement Letter Terms

We expect that registrars and issuers will need to amend their engagement letter terms to address the new Step 1 Operational Standards.

Key areas likely to require amendment to registrar engagement letter terms may include deleting all services relating to sending and receiving certificates.

c) Recommended Actions

DEMAT recommends that an industry working group, led by the GC100, should be convened to develop model provisions for articles of association amendments, together with associated guidance, enabling issuers to prepare resolutions for their next AGM following the Step 1 effective date.

The appointment of a registrar, and the associated terms and conditions, should remain a commercial arrangement between each issuer and its registrar. We do not recommend the preparation by industry of model or template engagement terms.

6. International Interfaces

6.1 Overseas branch registers

Background

There is presently a prevalent view that companies with Overseas Branch Registers ("**OBRs**") are unable to digitise shares held on those registers through CREST due to restrictions contained in the Uncertificated Securities Regulations 2001.

Specifically, paragraph 4(4) of Schedule 4 to the USRs prevents members of a company who hold shares in "uncertificated" form through CREST from being entered as holders of those shares on an overseas branch register. Strictly speaking, there is no requirement under the USRs for shares on an overseas branch register to be in the form of paper share certificates. OBRs are treated as outside both the issuer register of members and the Operator register of members under the USR.

At the same time, the key issue is that existing UK legislation only recognises the operator register (i.e. CREST) as a mechanism to hold shares (including OBR shares) in non-paper certificated form. Following the removal of paper certificates as evidence of ownership title of shares under Step 1, shares held on digital registers will be neither certificated (in the traditional sense of being evidenced by a paper certificate) nor uncertificated (in the legal sense of being held within a Relevant System under the USRs), and the current USR terminology does not accommodate this new category of paperless, non-system securities (see also section 5.1d) which describes our proposals for amending the terminology).

This has particular significance for UK-incorporated companies with overseas or dual listings, notably those listed in Hong Kong. Three of the UK's largest financial institutions, HSBC, Standard Chartered and Prudential, maintain shares on overseas branch registers in Hong Kong and their participation in the HK Uncertificated Securities Market (USM) would be adversely affected by any digitisation of share ownership programme that does not address this perceived limitation.

Legislative Framework

The Companies Act provides the Treasury and Secretary of State with powers to make regulations enabling title to securities to be evidenced and transferred without a written instrument. Any such regulations are subject to affirmative resolution procedure pursuant to section 784 of the Companies Act. These powers can be used to make amendments to the USRs and could be employed to introduce further regulations for the purposes of permitting OBRs to be digitised.

In particular, sections 786 to 788 of the Companies Act enable regulations to be made which require 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. Such regulations can apply to all securities of an issuer or securities of a specified description, as specified in the particular regulations.

Accordingly, it would be possible to prepare regulations for dual-listed companies in a format that enables shares on the OBR to be held and transferred in digitised form, using the mechanisms specified in the relevant overseas market.

Practical Considerations

It should be noted that not all OBRs are capable of being digitised, as this depends on local market rules and infrastructure in the relevant overseas jurisdiction.

Hong Kong presents a particular opportunity, given the digitisation of companies' shares listed on the Hong Kong Stock Exchange commencing in 2026. The Digitisation Taskforce recommended that the USRs be amended as soon as possible to facilitate UK-incorporated Hong Kong listed companies participating in the Uncertificated Securities Market (USM).

Recommendation

We propose that the Statutory Instrument should include the following provisions:

a) Flexibility for paper certificated and non-CREST digitised holdings for OBR holdings: Amendments to the Companies Act should ensure that OBRs can accommodate both paper certificated and non-CREST digitised holdings, recognising that the ability to digitise will depend on the rules and infrastructure of the relevant overseas market. This preserves flexibility for issuers operating in jurisdictions where digitisation is not yet available or practicable.

   We also recommend considering amendments to the branch register provisions of the Companies Act (sections 129 to 135) to give effect to this flexibility and, at the same time, ensure compatibility with relevant overseas settlement systems.

b) Steps should also be taken to verify whether any measures regarding transfers on overseas digital registers are needed to ensure that such transfers are recognised in UK law.

6.2 Regulation S Category 3 settlement issues

Background

Regulation S of the U.S. Securities Act of 1933 (the "Securities Act") provides a safe harbour from U.S. registration requirements for offers and sales of securities made outside the United States.

Category 3 of Regulation S applies to, among other things, equity securities ("**Reg S Cat 3 Securities**") of reporting issuers where there is a substantial U.S. market interest ("**SUSMI**"). Broadly, a foreign (non-US) issuer will only have a SUSMI for these purposes if, during the issuer's previous fiscal year, either the U.S. market was the largest for that security, or 20% or more of all trading took place in the US, while less than 55% occurred in a single foreign country.

This could therefore capture the UK-traded shares of UK incorporated companies that have a SUSMI. During the applicable distribution compliance period, Reg S Cat 3 Securities are subject to transfer restrictions, including prohibitions on offers or sales to U.S. persons and requirements that certain transactional safeguards be maintained.

Current Position: CREST and Reg S Cat 3 Securities

The CREST system supports the settlement of Reg S Cat 3 Securities through Euroclear's Regulation S Category 3 settlement service. Securities subject to Reg S category 3 restrictions have a separate ISIN in the CREST system from the issuer's main unrestricted line to help evidence the issuers' and CREST members' compliance with US legal requirements for Reg S.

Where the restricted line is unable to be issued and held in the CREST system (or the issuer chooses not to use the CREST system for settlement of the restricted line), then the Reg S Cat 3 Securities will be issued and held in paper certificated form, bearing the required Regulation S legend, until the expiry of the applicable distribution compliance period. After that point the securities can be migrated to the unrestricted ISIN and held in uncertificated form within the CREST system.

In particular, we understand that the settlement service offered by the CREST system for Reg S Cat 3 Securities is limited to non-US persons to reflect that EUI is not registered as a clearing agency in the United States. As a result, this means that the service cannot be made available to US CREST members.

Recommendation

Given the limited number of market participants likely impacted by this issue and the temporary nature of Step 1, we consider it disproportionate to develop systems or protocols to accommodate a mechanism by which entries on the digital share register can be flagged or classified as subject to specified transfer restrictions under Reg S Cat 3.

We therefore recommend that the affected shares be specified by the Statutory Instrument as being out of scope of the digital register model in order to facilitate compliance with Reg S Cat 3. This would eliminate the risk of disruption for issuers and shareholders affected by these US securities requirements. In formulating this exception to the scope of the digital register model, we recommend considering whether a company should be able to self-regulate such exceptions – for example by a provision in their articles of association and resolution of directors.

7. Dematerialisation Awareness Campaign

Overview

As recommended in the Digitisation Taskforce's Final Report (the "**Final Report**"), an awareness campaign will explain the Step 1 reforms to shareholders and other market participants. The campaign should be designed to explain that the digital register model replaces paper share certificates with entries on digital share registers (Model 1), preserving current shareholder rights and day-to-day servicing while removing paper-based frictions, and to signpost that the end-state will be the intermediated model once improvements to the intermediated chain have been delivered.

The awareness campaign will commence ahead of the Statutory Instrument which is currently expected to be laid during 2027. The campaign will be delivered across multiple channels with a concise and consistent message, leveraging existing issuer, registrar, intermediary and platform channels alongside civil society organisations such as Age UK and Citizens Advice.

The Step 1 awareness campaign is expected to cover the following key topics in communications from issuers (or registrars acting on their behalf) to shareholders:

a) an explanation of the phased approach to implementing the digitisation of share ownership, including the background to the Digitisation Taskforce's recommendations, the Government's acceptance of those recommendations, and the establishment of DEMAT to deliver the implementation plan;

b) a clear description of what is changing at Step 1, namely that paper certificates will no longer be used as evidence of title for UK publicly traded shares and that ownership will instead be exclusively recorded on the digital register;

c) the benefits of the transition for shareholders who currently hold paper share certificates, including ease of verifying holdings online, the security measures to prevent fraud, and the elimination of risks and costs associated with paper certificates;

d) the actions (if any) that shareholders need to take, including confirmation that shareholders will not be required to return their paper certificates, and that shareholders are encouraged to proactively provide their companies with payment and electronic contact details in order to facilitate digital communications and payments. Proposals relating to the mandatory provision of such information will be considered as part of Step 2 (see section 2 of Appendix 5);

e) the tax implications of the transition, confirming that the withdrawal of paper share certificates in the digital register model, with ownership being reflected purely on the digital register, will not trigger any stamp duty or SDRT charges; and

f) provision for vulnerable and digitally excluded investors, including confirmation that shareholders without digital access will still be able to access all relevant information and support, and that civil society organisations would be invited to ensure communications will be made available in alternative formats including Braille, audio, ESL and BSL.

Target audiences and communications strategy

The campaign should be structured to reach the following key audiences:

a) Non-CREST holders: Communications will prioritise clear explanations of what changes on day one, what does not, actions (if any) required, how to prove ownership, and how to sell post Step 1, with strong fraud risk messaging and accessible alternatives for those not online.

Non-CREST shareholders should be encouraged to provide issuers with their contact and payment details to facilitate electronic communications and payments, alongside clear messaging on the benefits of registering for and using registrar online portals as the primary means of accessing information and managing holdings.

b) Investors holding through the intermediated model: Communications should reassure such investors that the Step 1 changes primarily impact investors who hold paper certificated shares, and that investors who hold through the intermediated model would be unaffected at Step 1.

c) Civil society organisations: Organisations such as Age UK and Citizens Advice have been briefed and will be engaged to disseminate messages and help investors with queries.

d) Issuers and registrars (and their legal advisers): briefing notes and guidance should be disseminated to issuers and registrars with a view to supporting legal advisers in cascading information and assisting issuer clients with interpretation and compliance, clarifying the issuers and types of securities that fall within the scope of the reforms, describing preparatory steps, data collection, and timing, and emphasising the need for coordinated communications to non-CREST holders and vulnerable investors.

A dedicated webpage on Gov.uk will make available this report, the Statutory Instrument and associated policy statement explaining the reforms. This would be supplemented by FAQs and additional sources of information (including non-technical explanations on how digitisation would affect shareholders) hosted by leading industry organisations.

Accessibility

Civil society organisations should be invited to facilitate communications being made accessible through alternative formats such as Braille, audio, ESL, plain English, "Signly" and BSL. Websites containing information should be checked for accessibility. All messaging should use plain English as far as possible and should be user-tested with appropriate panels to ensure clarity, accessibility, and alignment with the needs of vulnerable people.

Guidance for investors considering moving to nominees

Ahead of the mandatory transition to intermediated holdings, investors in shares held outside CREST may choose to transfer their holdings onto CREST through an intermediary (such as a broker or investment platform) if they wish to do so.

The guidance should confirm that the transfer to an intermediary should not give rise to tax implications and explain the likely fees and other consequences of holding through an intermediary. In particular, investors should be aware that, upon such a transfer, the ability to exercise their shareholder rights (including voting rights, rights to receive information, and rights in respect of corporate actions) through that intermediary will be subject to the contractual terms agreed with the relevant intermediary.

Depending on those terms, investors may not be able to exercise some or all of their shareholder rights through the intermediary until the reforms for improving the arrangements for facilitating investor rights under Step 2 have been implemented.

Fraud risk mitigation and authoritative signposting

The awareness campaign will warn of heightened scam risks, instructing investors to rely on communications from their issuer, registrar or recognised intermediaries, and to verify information via official registrar and issuer channels. All materials will include clear signposts to authoritative sources (official issuer websites, registrar portals and helplines) to minimise the risk of fraud and false information.

8. Timings

The digital register model will take effect in late 2027, with the exact date to be confirmed in due course. The date will be set with the following considerations in mind:

a) Industry readiness and implementation lead times

Sufficient time must be allowed for registrars, brokers and EUI to build and test the systems and operational processes necessary for the operation of the digital register model. The effective date should be calibrated to ensure that all market participants have adequate time to prepare for the transition.

b) Accelerated settlement transition

The effective date should be selected to avoid coinciding with or occurring in close proximity to the implementation of T+1 accelerated settlement in the United Kingdom on Monday 11 October 2027. Implementing Step 1 concurrently with or immediately before or after the move to T+1 settlement would place significant operational strain on market infrastructure and participants, and would increase the risk of implementation difficulties.

c) Advance notice to market participants

Market participants must be given sufficient advance warning of the digital register model effective date to allow them to prepare their own internal processes, communicate with shareholders (as applicable) and make any necessary arrangements with their registrars.

d) Corporate action timetables

The effective date should be selected to avoid peak periods for corporate actions, such as the annual general meeting season (typically April to June for calendar year-end issuers) and common dividend payment dates. Implementing the digital register model during a period of high corporate action activity would increase operational complexity and risk for registrars and issuers alike.

Table of key dates (indicative)

July 2026	Publication of this report
H2 2026	Commencement of Step 1 awareness campaign
Summer 2027	Draft statutory instrument implementing the digital register model to be laid before Parliament
Late 2027, exact date to be confirmed	The digital register model takes effect. Paper share certificates no longer constitute evidence of ownership title. From this date, in-scope shares are held and transferred through digital registers alongside holdings on the CSD

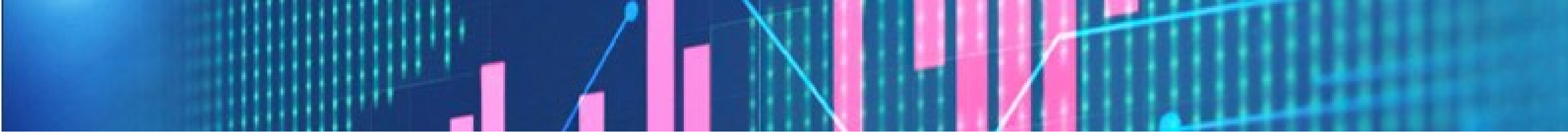
Appendix 1

Glossary of Key Terms

Central securities depository or CSD	An organisation that operates an electronic system for the recording and settlement of uncertificated securities
Companies Act	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
DBT	Department for Business and Trade
Dematerialisation / dematerialised	Dematerialisation: The removal of paper certificates as evidence of ownership title of shares and the holding of shares in electronic form, whether through an electronic settlement system such as CREST or directly on an issuer's digital share register Dematerialised: The issue of securities by issuers 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
DHC or Digital Holding Confirmation	A digital confirmation issued to a shareholder, serving as a factual statement of a shareholding at a point in time, analogous to a bank statement. DHCs do not constitute evidence of ownership or title
Digital share register	A digital version of the register required to be kept by section 113 of the Companies Act. Our proposals envisage, on the implementation date that members who hold shares in paper form will continue to be recorded on the digital register with their holdings reflected solely in digital form and paper certificates ceasing to be valid as evidence of title. This digital share register will be maintained alongside the

	"operator record" which records shares in the issuer held through CREST
DTR	The Disclosure Guidance and Transparency Rules made by the FCA under FSMA
ECHR	The European Convention on Human Rights
EUI	Euroclear UK & International Limited
FCA	Financial Conduct Authority
FCARs	Financial Collateral Arrangements (No. 2) Regulations 2003
Final Report	The final report of the Digitisation Taskforce published on 15 July 2025
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
HMT	HM Treasury
Interim Report	The interim report of the Digitisation Taskforce published on 10 July 2023
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
ISIN	International Securities Identification Number
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
Model 1 (or "digital register model")	A transitional framework for share ownership whereby paper share certificates are withdrawn as evidence of ownership of title, accompanied by the digitisation of paper-based processes associated with the evidencing and servicing of those holdings. Model 1 will operate alongside the existing intermediated securities chain operated through CREST and is designed as a temporary arrangement pending the implementation of improvements to the intermediated system and the ultimate transition to the intermediated model (Model 3)
Model 3 (or "intermediated model")	The end-state framework for share ownership whereby the shares of UK issuers that are publicly traded in the UK are issued in dematerialised form and held through a single Central Securities Depository acting as the issuer's CSD. Under Model 3, (other than where the shareholder is a participant in the relevant system and holds directly in the relevant system) shares will be held through third party intermediaries acting as nominees for, and contracted and paid by, their direct clients, which may comprise beneficial investors, other intermediaries, or other CSDs acting as investor CSDs
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
Operator register	A register of members in respect of the uncertificated shares of an issuer participating in a relevant system which an Operator of such system is obligated to maintain in accordance with the USRs
Overseas branch register or OBR	A register of members permitted to be kept pursuant to section 129 of the Companies Act for members resident in certain countries and territories listed in section 129 of the Companies Act
Reg S Cat 3 Securities	Securities that are subject to Category 3 of Regulation S of the U.S. Securities Act of 1933. Broadly, such securities are subject to transfer restrictions during the applicable distribution compliance period, including prohibitions on offers or sales to U.S. persons



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 (save that for companies that are “participating issuers” under the USRs, such register is instead required by paragraph 2 of Schedule 4 of the USRs). A “participating issuer” under the USRs would have an “issuer register” or “certificated register” which includes members who hold securities in paper form; and a separate “operator register” which includes members who hold securities through CREST
Retail investor	An individual who purchases investment securities such as shares in a non-professional capacity
Shareholder Reference Number (SRN)	The primary identifier for initiating deposits for shareholders under the digital register model
Share	An investment security which gives the legal owner of the security (the “shareholder”) a share in a company’s share capital
Securities Transfer Charge (STC)	The single securities transfer charge that would replace stamp duty and SDRT pursuant to HMRC’s proposed changes to the stamp tax regime due to be implemented in 2027
SME Growth Market	A multilateral trading facility that is registered as an SME growth market in accordance with Chapter 5.10 of the MAR Market Conduct Sourcebook
Statutory Instrument	A statutory instrument to be passed under powers in Part 21 of the Companies Act during 2027 that would provide for measures implementing Model 1 (the digital register model)
Step 1	The first phase of the UK’s dematerialisation programme, comprising the removal of paper certificates as evidence of ownership title of shares and the implementation of Model 1 (the digital register model)
Step 1 Operational Standards	The operational standards for Step 1 to be developed through industry-led protocols and practice established collaboratively between EUI, shareholder associations and representatives from the issuer, registrar and broker communities. These operational standards are expected to be endorsed by the Government following their publication around summer 2027
Step 2	The second phase of the UK’s dematerialisation programme, comprising a comprehensive programme of reforms to improve the intermediated securities chain in preparation for the full transition to Model 3 (the intermediated model)

Step 3	The third and final phase of the UK's dematerialisation programme, comprising the transition of shares on digital registers into the intermediated securities chain under Model 3 (the intermediated model)
Takeover Code	The City Code on Takeovers and Mergers
TTE (Transfer to Escrow)	A Transfer to Escrow instruction delivered through CREST which blocks a shareholder's ability to transfer shares and gives authority to an escrow agent to transfer the shares upon the occurrence of a specified event
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
Uncertificated	For the purposes of this report, "uncertificated" refers to shares recorded on an Operator register under the USRs, where legal title is determined solely by that Operator register. In contrast, "dematerialised" refers more broadly to shares held in electronic form, including shares recorded on an issuer's digital register outside the USRs framework
Uncertificated Securities Regulations 2001 (USRs)	The Uncertificated Securities Regulations 2001 (SI 2001/3755), regulations that provide the legal framework for the operation of CREST as the system for holding and transferring uncertificated securities

Appendix 2

Indicative Processing Proposal
for Dematerialisation under the Digital Register Model

At present, paper share certificates serve as prima facie evidence of title to shares (see section 768 of the Companies Act) and the register is prima facie evidence of membership (see section 127 of the Companies Act and Regulation 24 of the USRs). Subsequent to the introduction of digital registers under Step 1, it is proposed that ownership will be determined by reference to the register of members maintained by the issuer or its appointed agent. Shareholders will have the ability to verify their holdings through registrar portals, analogous to viewing an online bank account balance.

Under the digital register model, where activity is initiated through authorised brokers, they would retain existing Know Your Customer (KYC) obligations. For non-broker initiated processes, Registrars would employ identification methods and multi-factor authentication, where possible, to ensure the identity of individuals executing the transaction. The Step 1 Operational Standards will describe the high-level protocols that would apply to such security checks.

Overview of Process Enhancements and Developments

Digital Holding Confirmations

As holders will no longer be able to use physical certificates as prima facie evidence of ownership, Digital Holding Confirmations (DHC) will need to be developed to allow the holder to provide information of their holdings in connection with transfers and other purposes. Such confirmations will be analogous to a bank statement (i.e. a factual statement of a holding at a point in time) but will, however, not constitute evidence of ownership.

Web Portal or App

All registrars will be required by their client issuers to have a means of digital access where shareholders can access their shareholdings and perform self-service maintenance activities. Standard features are listed below:

(a) Identity Verification – Secure access is essential. As part of any enrolment for online services, shareholders should be required to prove who they are, to the satisfaction of the registrar. Ideally, such verification should be performed via identification/verification without the shareholder having to send physical documents.

(b) Multifactor authentication (MFA) – It is recommended that access to any portal/App should require more than one form of authentication, ensuring the identity of the individuals.

(c) As part of the enrolment process, shareholders should be prompted for email address and bank account details (if not already present) so that these can be applied to the shareholding.

(d) Shareholding balance enquiry and ability to access their transaction history.

(e) Digital holding confirmations should be available (and downloadable) on demand and should, at a minimum, include the following information:

  (i) Registrar name/logo

  (ii) Date of request

  (iii) Shareholder full name(s)

  (iv) Shareholder designation

  (v) Address

  (vi) Shareholder Reference Number

  (vii) Full description of shares held (i.e. ABC Plc Ordinary GBP0.10 shares)

  (viii) Number of shares held

(f) Address changes.

(g) Collection/amendment of email address.

(h) Collection/amendment of bank account details (GBP and, where directly offered by issuers as a default or elective currency, EUR and USD).

(i) Collection/amendment of a telephone number (preferably a mobile number, to support digital push notifications and one-time passcodes).

Digital Transfers

As a result of the conversion to digital shareholdings, transfers or other routine procedures involving shares recorded on digital registers will no longer be reliant solely on physical documents and consequently a number of existing processes will need to be adapted.

The following should be considered and addressed:

(a) CREST Stock Deposits/De-registration Requests

(b) CREST Stock Withdrawals

(c) Off Market Transfers

(d) New Shareholder Notifications

(e) Security Transaction Alert Notifications

Proposed processes

The following sections outline how various standard procedures will be undertaken in the absence of share certificates and physical transfer documentation.

CREST Stock Deposit process into broker account

(a) Note that all brokers are regulated entities and already have regulatory obligations to verify the identity of their customers. Such checks are critical to preventing fraud. CREST Stock Deposits cannot be initiated without a valid Shareholder Reference Number (SRN) that must be provided by the shareholder to the broker when initiating the stock deposit. The broker may request a DHC to validate all information relating to the shareholding.

(b) On (or before) Deposit Date

(i) Broker performs mandatory KYC/AML checks, as at present.

(ii) Broker inputs Stock Deposit message into the CREST system to instruct the movement of the security to their CREST participant/member account. This triggers a notification to the registrar.

(iii) The Stock Deposit message must minimally contain the SRN, number of shares being deposited, plus the Full Names of all shareholders.

(iv) An SRN obtained from the DHC will be included in the Stock Deposit message but will not be a mandatory field within the CREST system to allow for out-of-scope assets to continue to use the same message type. Existing fields within the Stock Deposit message are intended to be used to carry this information. For example, the current CREST optional field 'Registrar Account Folio Number' (within the Stock Deposit message) can be used to pass the required SRN.

(v) The supplied data elements are checked against the register by the registrar[3]. Any stock deposit request which fails this check is rejected with an immediate notification sent back to CREST for onward transmission to the broker, using pre-agreed failure codes.

(vi) Where the Deposit request passes the verification check, and the shareholding has a sufficient balance, the transfer can be registered, resulting in a notification sent back to CREST to update the Operator register and credit shares to the CREST account of the depositing broker. This status change will also be relayed to the instructing CREST participant.

(vii) Registrar processing of the stock deposit requests will result in acceptance or rejection.

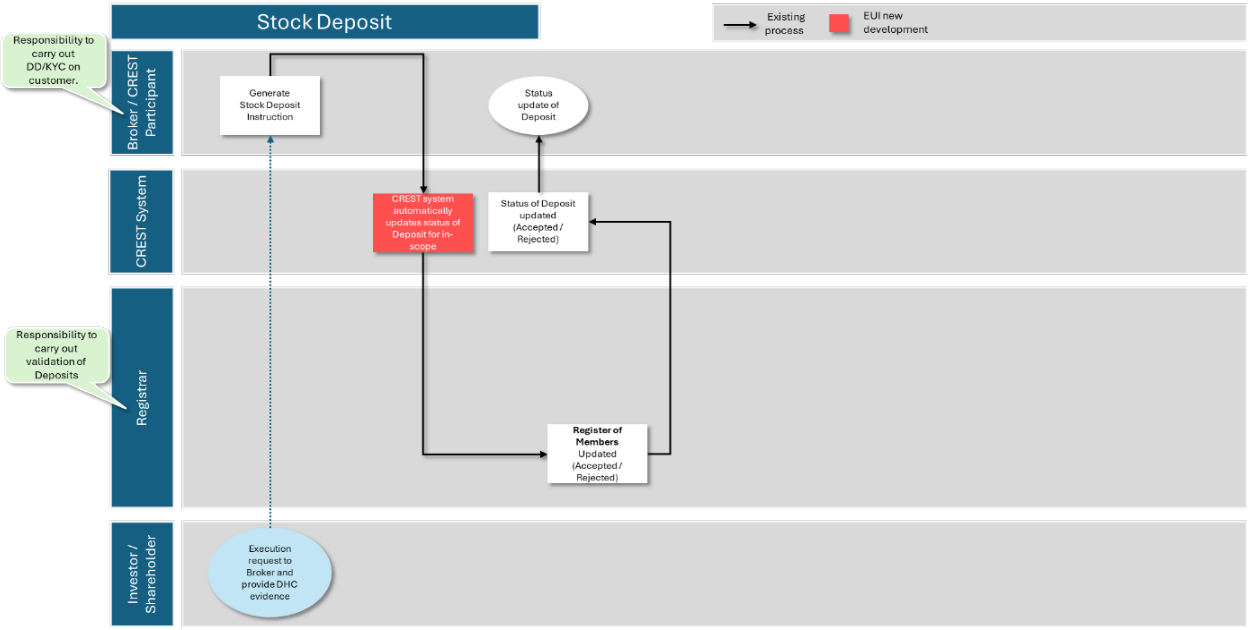
(viii) For shareholders that have provided an electronic means of contact (e.g. email address, phone number) to the registrar, security alerts should be issued as soon as practicable, alerting the shareholder to that activity on their holding.

[3] Registrars to perform a risk-based assessment, although brokers should endeavour to populate the name details per the DHC on the Stock Deposit instruction to avoid unnecessary rejections.

(ix) Security letters will also be generated for holders without e-comms to be despatched as soon as practicable to enable the transferor to query any unexpected transactions.

(c) After Deposit Date

(i) Reversal arrangements can be initiated (by contacting the relevant broker[4]) in the event of non-authorised activity, and any corrections should use the CREST Stock Withdrawal process.



<u>Withdrawal Process to remove shares from CREST to be held on the digital register</u>

(a) On or before Withdrawal Date

(i) Holder contacts broker to place order and requests to hold it outside CREST, on the digital register.

(ii) Where necessary, broker validates authority of holder to give instructions in relation to intermediated shareholding.

(iii) Broker can input Stock Withdrawal message into the CREST system for either immediate or delayed settlement.

(b) After Withdrawal Input

(i) Stock Withdrawal instruction is sent to registrar including notification of holder.

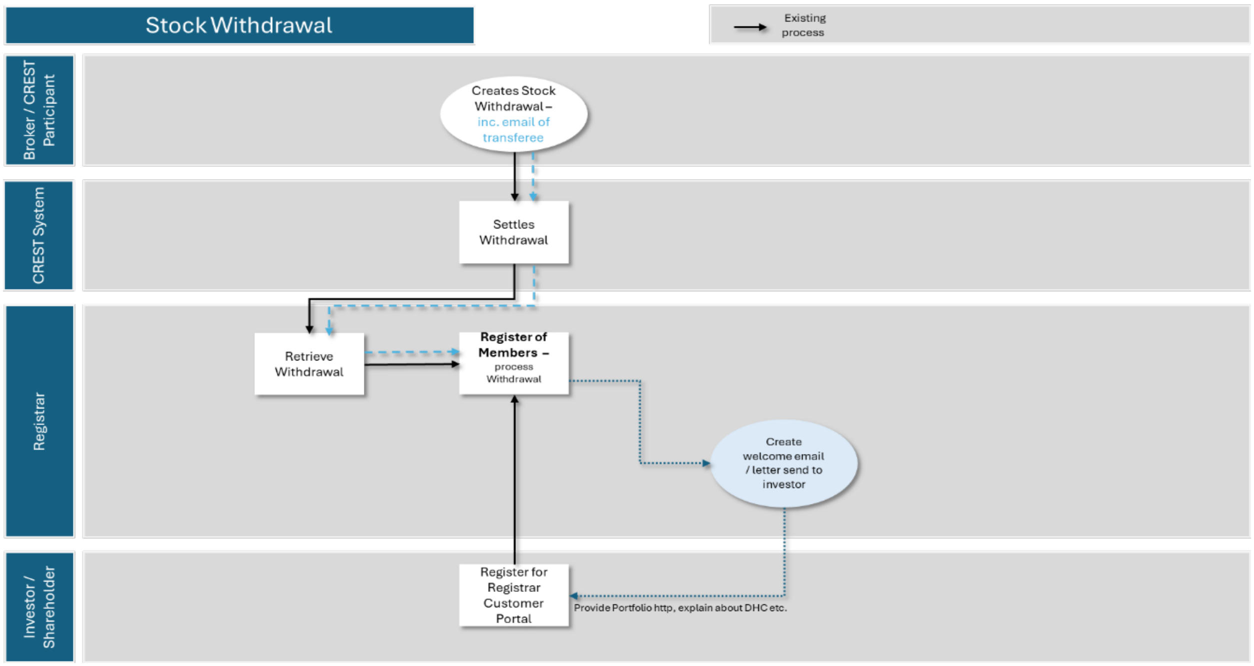
[4] Dedicated technical channels are unlikely to be implemented for shareholders to make enquiries of brokers, although a list of contacts would be beneficial so that Registrars can ensure that the enquiry gets appropriate timely attention.

(ii) Where the Withdrawal request passes the registrar checks, the transaction can be processed, resulting in an immediate notification sent back to CREST to update the Operator register. This status change will also be relayed to the instructing CREST participant.

(iii) Registrar processing of the stock withdrawal requests (resulting in acceptance or rejection) should be completed on day of receipt.

(iv) For existing holders with e-comms, alerts should be issued as soon as reasonably practicable.

(v) Notifications will be issued to new holders, with emphasis on digital engagement via the Registrar portal so that secure accounts can be established, in order to promote self-service and facilitate enhanced security/alert measures.



<u>Off Market Transfers/Gifts</u>

(a) Transfer is arranged between parties.

(b) Currently, the registration of an off-market transfer / gift transfer requires the presentation of a validly completed stock transfer form and accompanying valid certificate(s) to the registrar. It is the working assumption at this time that the legal requirement for an executed paper stock transfer form will become optional and that a form of digital transfer will also be permitted. As such, registrars may look to provide a facility for transfers to be instructed digitally by the transferor. In the absence of share certificates, such transfers will need to be subject to identity verification checks to validate that the rightful shareholder is instructing the transfer. The Step 1 operational standards will describe the high-level protocols that would apply to such security checks.

(c) Stamp Duty verification service – The registrar will be required to verify that stamp has been paid, or collect any exemption certification, as part of the digital/physical journey for off market transfers.

(d) Consider value thresholds: -

  (i) Low value transfers below an agreed de minimis amount could be subject to relaxation of requirements, at the issuer's/registrars' discretion.

  (ii) A greater degree of scrutiny could be applied to high value transfers, at the issuer's/registrars' discretion.

(e) On satisfaction of the relevant checks the registrar can register the off-market transfer.

  (i) For existing holders with e-comms, alerts should be issued as soon as reasonably practicable.

  (ii) Notifications will be issued to new holders (i.e. the transferees), with emphasis on digital engagement via the Registrar portal so that secure accounts can be established, in order to promote self-service and facilitate enhanced security/alert measures.

<u>Operation of Law – death of sole shareholder</u>

(a) Letter of Request to be delivered to registrar with certified copy of relevant documentation e.g. Grant of Probate/Affidavit/Small estates form (or electronic equivalents).

(b) Identity validation to be performed on executors/transferees.

(c) Consider value thresholds:

  (i) Low value transfers below an agreed de minimis amount could be subject to relaxation of requirements, at the issuer's/registrars' discretion.

  (ii) A greater degree of scrutiny could be applied to high value transactions, at the issuer's/registrars' discretion.

(d) On satisfaction of the relevant checks the registrar can record the off-market transfer.

  (i) For existing holders with e-comms, transaction alerts can be issued in a timely manner.

  (ii) Notifications will be issued to new holders (i.e. the transferees), with emphasis on digital engagement via the Registrar portal so that secure accounts can be established, in order to promote self-service and facilitate enhanced security/alert measures.

<u>Operation of Law – death of joint shareholder</u>

(a) Certified copy of death certificate to be delivered to registrar.

(b) On satisfaction of the relevant checks the registrar can remove deceased holder from registration data and reassign to survivors.

(i) For existing holders with e-comms, transaction alerts can be issued immediately.

(ii) In the event of the death of first named holders, notifications will be issued to the successor, with emphasis on digital engagement via the Registrar portal so that secure accounts can be established, in order to promote self-service and facilitate enhanced security/alert measures.

Support for digital transactions

(a) New Shareholder notifications – In the absence of share certificates, it will be necessary to send a digital notification to all new shareholders. Where a digital address is provided as part of the transfer process, this can be sent digitally but, in any event, there should be an emphasis on digital engagement via the Registrar portal so that secure accounts can be established, in order to promote self-service and facilitate enhanced security/alert measures.

(b) Security notifications (transaction alerts) – Should, at a minimum, be digitally generated in response to static detail changes and standard transactions as noted above. Where a digital address is present for the shareholder, these should be sent digitally and protocols established for alerting digitally excluded shareholders.

Continued support for digitally excluded population

It is recognised that any digitisation drive should seek to allow shareholders to use paper documents, or another suitable alternative, where digital-only communication would cause disadvantage and undermine financial inclusion. Although electronic access is expected to become the default, shareholders should be able to opt in to, or request, physical forms of delivery - through a clear, accessible and straightforward process, without undue friction or other barriers that would make it difficult for them to exercise that choice.

Appendix 3

Illustrative Corporate Action Arrangements under the Digital Register Model

Introduction

This appendix is a non-exhaustive and high-level description of how typical corporate actions involving shareholders who hold outside CREST would be affected by Model 1. Arrangements for holdings in CREST are not expected to change as a result of the digital register model and are consequently not addressed in this appendix.

This appendix focuses on the impact of the removal of share certificates based on the type of activity involved on the part of the issuer, shareholders and any third parties. It does not attempt to deal with all possible types of corporate action, but the elements of the actions described here will apply to other similar types of corporate actions (including where transactions involve a combination of different corporate actions, such as a demerger followed by a consolidation).

Fuller use of electronic communications, together with digital solutions for completing corporate actions, should continue to be encouraged. However, the implementation of Model 1 does not envisage that paper documentation relating to corporate actions, such as circulars, forms of election, provisional allotment letters, forms of acceptance, etc., will cease to be required in connection with corporate actions, and such transactions will not be fully digitised as part of Model 1 implementation[5].

Full digitisation would require development of appropriate technical systems and potentially further changes to the law (other than those required for the removal of share certificates).

The Step 1 Operational Standards would stipulate that the shareholders should receive the following notifications or confirmations on completion of a corporate action. Shareholders would receive notifications directing them to a portal where confirmation can be obtained. This will also provide an opportunity to capture any missing details e.g. email address/bank details as appropriate. Physical confirmations will be available on request. The communications could include:

(i) a notification of the fact of a change and directing the shareholder to review their holding by entering the portal to check this;

(ii) a transaction confirmation notifying the change (e.g. number of new shares issued to the shareholder); and

(iii) a confirmation of the resulting balance of the shareholder's holding.

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[5] As today, digital channels may be utilised alongside physical arrangements in selected Corporate Actions for the purposes of communicating events and facilitating elections for shareholders that have expressed a preference for e-communications and/or those that choose to utilise such methods on a non-mandatory basis.

1. **Further issues of shares or capital reorganisations (where no action required by shareholder)**

Brief description:

These include bonus or capitalisation issues, share splits and share consolidations, as well as reorganisations such as B share schemes (without a right of election). A combination of actions may be involved, and in each case will result in an issue of new shares and/or a change to the rights of existing shares held by shareholders.

Current system for certificated holdings:

(a) the register of members (as at the record date) is updated to reflect the issue of new shares or the change relating to the rights of shares held by each shareholder;

(b) new certificates are issued to each shareholder representing the additional shares issued to them (e.g. in a bonus issue) or, where the action results in a new class of shares and/or a new ISIN number (e.g. a stock split, consolidation or other redesignation), new certificates are issued in respect of the shareholder's whole holding (existing certificates are no longer valid but do not have to be submitted/returned) as well as a short explanation of what resulted in the issue of new or replacement shares/share-certificates; and

(c) shareholders can also check their revised holding on the updated register through the company/registrar portal if they have registered for access to the portal.

Model 1:

The same processes will apply except that instead of (b) above, digital notifications of the change will be sent, using email or electronic message where shareholders have provided an email address (or shareholders would be notified to access the portal where the digital notification could be obtained). Hard copy confirmations of the completion of the corporate action will be sent to shareholders who have elected for hard copy communications.

2. **Further issues of shares involving election by shareholder**

Brief description:

These include scrip dividends (although a shareholder may have previously given a standing election to receive shares in lieu of dividends until further notice), B share schemes (with a right of election) or corporate reorganisation schemes (including a scheme of arrangement under Part 26 or Part 26A of the Companies Act). In each case, the action involves an issue of new shares to existing shareholders subject to a right of election between different forms of consideration, which may include cash or shares.

Current system for certificated holdings:

(a) forms of election (in paper form, or online equivalents where available), are completed and submitted by shareholders;

(b) there is no need to submit a share certificate, as entitlements are based on the entries on the register of members on the relevant record date;

(c) when the corporate action becomes effective, the register of members is updated to reflect the issue of new shares or the change in the shares held by each shareholder;

(d) new certificates are issued to each shareholder representing any additional shares issued to them as well as a short explanation of what resulted in the new issue; and

(e) shareholders can also check their holding on the updated register through the company/registrar portal if they have registered for access to the portal.

Model 1:

The same processes will apply except that instead of (d) above, digital notifications of the change will be sent, using email or electronic message where shareholders have provided an email address (or shareholders would be notified to access the portal where the digital notification could be obtained). Hard copy confirmations of the completion of the corporate action will be sent to shareholders who have elected for hard copy communications.

3. **Rights issues and open offers**

Brief description:

Rights issues and open offers are offers of new shares by a company to its shareholders in proportion to their existing holdings on the record date. In a rights issue, a shareholder receives a provisional allotment represented by a Provisional Allotment Letter (PAL), which includes a form of acceptance. If the shareholder wishes to subscribe for the new shares, they must submit their completed PAL, together with the relevant subscription monies, to the receiving agent. The rights represented by PALs are tradable, and a purchaser may subscribe for the shares themselves by submitting the PAL and relevant subscription monies to the receiving agent.

In an open offer, there is no tradable right, and a shareholder who wishes to accept the offer to subscribe for new shares must submit a signed application form, together with the relevant subscription monies, to the receiving agent.

Current system for certificated holdings:

(a) PALs or application forms are sent in hard copy to shareholders (although corresponding processes may be set up to enable electronic acceptance and payment);

(b) there is no need to submit a share certificate, as entitlements are based on the entries on the register of members on the relevant record date;

(c) at the end of the acceptance period, subject to payment having been received, the register of members is updated to reflect the issue of new shares to relevant shareholders or other subscribers;

(d) certificates are issued to each subscriber representing the new shares issued to them as well as a short explanation of what resulted in the new issue;

(e) in respect of Rights Issues, shareholders may opt to sell nil paid rights during the offer period. Such sales are settled via the deposit of the PAL into CREST (following the same process for equity sales);

(f) any rights not taken up are sold for the benefit of the shareholder with any premium proceeds distributed; and

(g) shareholders can also check their holding on the updated register through the company/registrar portal if they have registered for access to the portal.

Model 1:

The same processes will apply except that instead of (d) above, digital notifications of the change will be sent, using email or electronic message where shareholders have provided an email address (or shareholders would be notified to access the portal where the digital notification could be obtained). Hard copy confirmations of the completion of the corporate action will be sent to shareholders who have elected for hard copy communications.

In relation to (e) above, transfers to CREST participants are envisaged to follow the same process as for deposits of digital securities into CREST (the PAL will not need to be lodged).

In the case of new subscribers who are not already shareholders, new shareholder onboarding processes will be required.

4. **Demergers**

Brief description:

In a demerger, a shareholder of Company A receives shares in a newly-incorporated entity, Company B. The Company B shares are issued or transferred to shareholders, typically as a result of a scheme of arrangement or dividend in kind by Company A.

Current system for certificated holdings:

(a) Company B's register of members is updated to reflect the issue or transfer of shares to shareholders of Company A, who are the new members of Company B;

(b) new certificates are issued to each shareholder representing their shares in Company B as well as a short explanation of what resulted in the new issue;

(c) shareholders can also check their holding on the register through the company/registrar portal if they have registered for access to the portal; and

(d) Company A may undertake a consolidation of its existing securities. See actions described in paragraph 1 above.

Under Model 1, instead of (b) above, as this is a new company (and assuming the two companies appoint different registrars), shareholders will require new shareholder onboarding processes, including notification of their new Shareholder Reference Number for Company B, and will be encouraged to register for the company's digital portal. Digital communications will be issued where valid email addresses are present. Hard copy communications will be issued in the absence of a valid email address. If both Company A and Company B appointed the same registrar, the shareholder registered on the digital portal for the shares in Company A will be able to access their shareholding details for Company B using their same login details.

5. **Takeover by way of a scheme of arrangement under the Takeover Code (assumes UK incorporated target company)**

Brief description:

This is where an offeror acquires the shares of a target company by means of a scheme of arrangement under the Companies Act. It involves the target company making an application to the court to convene court and general meetings of the target company's shareholders to vote on the scheme of arrangement and associated matters. At the court meeting to approve the scheme, approval is required from a majority in number, representing 75% in value, of each class of shareholders. These thresholds are calculated by reference to those attending and voting (whether in person or by proxy) at the court meeting. Once approved by shareholders, the scheme must also be sanctioned by the court. It will become effective once the court order is filed at Companies House. Once effective, the scheme will bind all shareholders, whether or not they individually voted in favour of the scheme.

If there are different forms of consideration available under the offer, a separate form of election will also be sent to allow shareholders to elect the form of consideration they wish to receive (as described in paragraph 2 above).

Once the offer has become unconditional, by virtue of the scheme becoming effective, consideration is paid to accepting shareholders. This will take the form of either a payment, a new certificate for the shares or other securities being offered, or any combination (depending upon the terms of the offer and the election made).

Current system for certificated holdings:

A form of proxy is sent to shareholders requesting them to cast their vote at the court meeting in relation to the scheme. Specific requirements apply to the form and use of proxies at court meetings as opposed to general meetings. A separate form of proxy is also sent for the related general meeting. Shareholders may also be given the option to submit their proxies electronically. Shareholders can attend and vote at the relevant meetings in person should they wish to do so.

Where forms of election are sent to shareholders, they can elect which form of consideration to receive by completing these and returning them to the receiving agent for validation.

As a scheme operates by shareholder vote rather than through contractual offer and acceptance, unlike a contractual takeover offer (discussed in paragraph 6 below), there is no requirement for shareholders to provide their share certificates as part of the current process.

Model 1:

As shareholder entitlements to vote and to receive consideration are determined by reference to the register of members (together with any elections), the issues described in section 5.5 of this report do not arise in relation to schemes.

Parties should be able to continue to use paper-based proxy forms (at the issuer's discretion) and (if applicable) forms of election during Step 1. Parties can already choose to provide for electronic submission of proxies should they wish to do so and will continue to be able to do this.

6. **Contractual offer under the Takeover Code**

Although most takeovers are effected by way of a scheme of arrangement proposed by the target company (as described in paragraph 5 above), a takeover may also be effected by a third party making a contractual offer to all target shareholders to acquire their shares. There are also occasions where competing contractual offers may be made by different bidders for the same company at the same time. In addition, although this is relatively rare, an offer may be made for some, but not all, of a target company's shares.

Current system for certificated holdings:

Certificated holders accept the offer by completing and returning a form of acceptance to a receiving agent accompanied by the relevant share certificate(s). These are checked and validated against a copy of the target register held by the receiving agent in accordance with the rules set out in the Takeover Code.

If there are different forms of consideration available under the offer, and shareholders can elect which they wish to receive, a form of election may be incorporated into the form of acceptance.

A shareholder completes a form of acceptance and returns it to the receiving agent together with covering share certificates.

Once the offer is unconditional, the consideration is paid to accepting shareholders. This will take the form of either a payment, a new certificate for the shares or other securities being offered, or both (depending upon the terms of the offer and elections made). Similar steps are taken if the offeror is able to squeeze-out successfully any remaining shareholders who have not accepted the offer. The register of members is updated (subject to payment of stamp duty) to reflect the change of ownership, with share certificate(s) issued to and in the name of the successful offeror in respect of the shares acquired in the target company.

Model 1:

The approach to validation of acceptances by non-CREST shareholders would need to be determined, in particular in the context of competitive contractual offers, and is likely to require amendments to the Takeover Code, as discussed in section 5.5 of this report.

Parties should be able to continue to use paper-based forms of acceptance during Step 1. They would be free to explore the use of electronic acceptances with their advisers should they wish to do so, but this should not be mandated. In this context, it should also be noted that forms of acceptance are executed as a deed rather than as a simple agreement so consideration would need to be given as to whether/how this could be achieved in the context of a proposal to use electronic acceptances on a transaction.

If the consideration due to shareholders of the target company includes in-scope shares of a UK-traded company, the former target shareholders will require notification of their new holding in the offeror, including a new Shareholder Reference Number, and be encouraged to register for the company's digital portal. Digital communications will be issued where valid email addresses are present. Hard copy communications will be issued in the absence of a valid email address.

7. Redemptions and conversions

Brief description:

For the purposes of this discussion, these include rights under the terms of in-scope securities (assuming these will include redeemable and convertible preference shares which are UK-traded) to receive in-scope shares or payment of money either (1) on exercise of a right by the shareholder (voluntary events), or (2) on exercise of a right by the issuer (mandatory events). Such events may be partial (leaving the shareholder with a balance of their holding) or in full (leaving the shareholder with no remaining balance of the original holding).

If the convertible securities are out of scope (e.g. convertible bonds), but are convertible into in-scope shares, the issue of the new shares will be dealt with in the same way as other new issues of in-scope shares.

Current system for certificated holdings:

(a) For voluntary events, forms are completed and submitted by shareholders; this usually involves submitting the share certificate along with the form;

(b) in the case of a mandatory event the issuer will convert or redeem in accordance with the terms of the securities and there is no requirement to submit a certificate;

(c) where the event results in a payment, the shareholder will be sent a cheque or paid electronically where possible, and provided with relevant tax information. Where the event results in an issue of shares to the shareholder, they will be sent a certificate for the new shares;

(d) in the case of partial events, balance certificates will be sent to shareholders;

(e) the register of members is updated to reflect the reduction in the original holdings and any new issue of shares; and

(f) shareholders can also check their holding on the updated register through the company/registrar portal if they have registered for access to the portal.

Model 1:

The same processes will apply except that instead of (c) and (d) above, digital notifications of the change will be sent, using email or electronic message where shareholders have provided an email address (or shareholders would be notified to access the portal where the digital notification could be obtained). Hard copy confirmations of the completion of the corporate action will be sent to shareholders who have elected for hard copy communications and to other shareholders on request.

Exercise / Redemption Notices are typically printed on the reverse of the physical certificate. In respect of partial redemptions post the implementation of Model 1, no balance certificates will be issued. A standalone Notice will be made available by the issuer for completion and submission by the holder.

Appendix 4

Illustrative Impact on Shareholders

Case Study 1: Impact of the digital register model on a shareholder holding paper share certificates

The Facts

Jill Smith has held 200 shares in Acme plc in paper certificated form for over 20 years. She keeps her paper share certificate in a drawer at home and receives an annual dividend by cheque. She does not own a computer but has a mobile telephone that she uses for calls and text messages.

What Happens at Step 1

On the Step 1 effective date, Jill's paper share certificate will become obsolete and will have no legal effect for the purposes of evidencing share ownership. No action is required on Jill's part for this to occur; her balance of holdings is recorded on Acme's digital share register maintained by the company's registrar. The register of members is kept only in digital form.

Jill's shareholder rights, including the right to receive dividends, vote at general meetings, and participate in corporate actions, will continue as they do today. Jill does not need to return her paper share certificate; it simply becomes null and void as evidence of title on the implementation date. There is also no need to dispose of her paper share certificates, although if Jill wishes to do so, she should dispose of them securely because they may include important security information.

Ownership information

In the absence of her paper certificate, Jill will be able to verify her holdings through the Registrar portal or app, analogous to viewing an online bank account balance. She will also retain the ability to call, email or write to the issuer/registrar if she is unable / does not wish to register for their portal/app.

Her legal ownership is evidenced on the issuer's digital register. Registrars will issue Digital Holding Confirmations (DHCs) on demand, serving as factual statements of a holding at a point in time, which Jill can use to support any transactions (e.g. sale, transfers or stock deposits).

If, as part of Jill's dialogue with the registrar it becomes clear that the details held on the register are out of date (for example, if she had moved house and not previously informed the registrar), those details can be updated as part of that interaction.

For shareholders like Jill who do not have digital access, a request to receive physical documents would apply to company communications in accordance with company law requirements, without Jill needing to repeat that request for each communication.

Physical statements or other holding confirmations (or equivalent workarounds) are not expected to be issued routinely, but could be requested ad hoc on a case-by-case basis and would be issued through the channel requested.

Case Study 2: Trading Shares within the digital register model

The Facts

Jill Smith wishes to sell her 200 Acme shares following Step 1.

Selling Through a Broker (CREST Stock Deposit)

To sell her shares, Jill would firstly need to engage a broker and complete any KYC/account opening requirements that may be required by that firm (if they haven't been completed previously). To facilitate a sale, Jill will need to transfer her shares from the digital register into her chosen broker's CREST participant account (known as a "stock deposit"). The process operates as follows:

(a) Jill contacts a broker and in support of her request to sell shares, she will be asked to move her shares into the broker's nominee account in the CREST system to facilitate settlement of the share sale transaction. She provides them with her Shareholder Reference Number (SRN), which becomes the primary identifier to help identify her holding, this can be found on the DHC.

(b) Once the checks are complete and Jill's trading account is open, the broker arranges for the shares to be transferred into their nominee account in CREST. They do this by submitting a Stock Deposit instruction in CREST, this instruction is then sent to the Registrar for processing.

(c) The company's registrar validates the details included in the broker's Stock Deposit instruction, matches the SRN to Jill's holding, and ensures that Jill holds enough shares to satisfy the broker's request. Once confirmed, the registrar updates the issuer register to reflect the transfer into the broker's nominee account.

(d) Jill receives confirmation from her broker once the transfer has been completed or in the case of failed verification will receive notification of rejection.

(e) For security, Jill is notified by the company or its registrar when the transfer takes place via a security alert issued by email (where an email address has been provided by Jill) or by post (as soon as practicable).

(f) Because the process is fully digital, transfers are expected to complete more quickly than under current paper-based processes.

Once Jill's shares are in the broker's CREST account, the broker can execute the sale and, subsequently settle the trade with the market counterparty in CREST.

Off-Market Transfers and Gifts

If Jill wishes to transfer her shares directly to a family member (for example, as a gift to her grandchild), she can do so through an off-market transfer arranged directly between the parties and notified to the registrar/issuer.

Jill may have the option in future to instruct a transfer / gift via digital means in addition to a physical transfer form. In either case, the registration of the transfer by the registrar will be subject to security measures agreed across the industry and between individual registrars and their issuer clients, ensuring that the instruction is validly authorised and to provide protection to shareholders against the risk of fraud.

The registrar must verify that stamp duty has been paid or collect exemption certification as part of the digital journey. Value thresholds may be applied: low-value transfers below an agreed de minimis amount could be subject to relaxed requirements, while high-value transactions may require a greater degree of scrutiny and a higher standard of checks.

Upon satisfaction of the relevant checks, the registrar registers the transfer and issues a security-focused transaction alert to the existing holder via electronic communication where possible, with emphasis on portal enrolment for the new transferee holders.

Case Study 3: Probate and Bereavement

The Facts

Jill Smith passes away in the middle of 2028, leaving her 200 Acme shares to her son, Bob, under her will. Bob has been appointed as sole executor. There is no paper share certificate to locate.

Transmission on Death of a Sole Shareholder

Transmission by operation of law upon the death of a sole shareholder like Jill is processed by delivery of a Letter of Request to the registrar, accompanied by certified copies of relevant documentation such as Grant of Probate, Affidavit or Small Estates Form (or electronic equivalents).

Identity validation must be performed on Bob as executor. Such transmissions are sometimes routed through a solicitor who may be supporting the administration of the estate.

Value thresholds may similarly apply, with lower-value transmissions (such as Jill's £1,000 holding) subject to relaxed requirements, while higher-value transmissions may potentially require additional security checks.

Upon satisfaction of the relevant checks, the registrar records the transmission, issuing security-focused transaction alerts to holders with electronic communications and emphasising portal enrolment for successors to establish secure accounts.

Variation: Death of a Joint Shareholder

If Jill had held her Acme shares jointly with her husband, the process would be simpler. Upon Jill's death, a certified copy of the death certificate would be delivered to the registrar. Upon verification, the registrar would remove Jill from the registration data and reassign the holding to the surviving joint holder(s). Transaction alerts would be issued immediately to the existing first-named holder with electronic communications.

Case Study 4: Transferring to a Nominee

The Facts

Bob decides that he would like to transfer his Acme shares from the digital register into a nominee account with a retail investment platform.

The Transfer Process

To transfer to a nominee, Bob would:

(a) Open an account with his chosen retail investment platform or stockbroker.

(b) Complete the platform's onboarding process, which typically involves KYC/AML checks (validating Bob's name, address, date of birth and National Insurance Number, checking for "politically exposed persons" and sanctions screening).

(c) The platform/broker would arrange for a stock deposit from the digital register into the platform's CREST nominee account, following the process described in Case Study 2.

(d) Once the transfer is complete, Bob's shares would be held by the platform's nominee company on his behalf, and he would have beneficial ownership recorded in the platform's own records.

Appendix 5

Step 2 and Step 3 Considerations

This appendix sets out our preliminary observations on certain measures relating to Steps 2 and 3 of the implementation framework set out in the Final Report. These matters are flagged for further work and are not the subject of final recommendations at this stage. The views expressed below are intended to facilitate discussion and inform next steps.

In addition, although the Final Report envisaged that these matters would be taken forward as part of the programme of reforms to the intermediated securities chain (Step 2) and the subsequent transition of all shares into the intermediated model (Step 3), we have received representations that each of them warrants attention at this earlier stage. This is on the basis these measures should properly be regarded as complementary to the Step 1 work and that early engagement will facilitate a more effective transition to a digitised regime. Considerable thought has already been invested in these areas, and the analysis set out in the following sections reflects that engagement.

It should be recognised that the ability to fast-track any of these measures is, in many respects, contingent on the legislative timetable and regulatory capacity, as well as the capacity of all impacted stakeholders to define and develop operational/technical solutions. Several of the proposals set out below will require primary legislation, and their sequencing will necessarily depend on the Government's wider legislative programme.

1. **Opt-in for out-of-scope shares**

Although shares that are not traded on a UK regulated or SME Growth Market would be out of the mandatory scope of the digital register model, DEMAT's preliminary view is that issuers should have the option of applying the digital register model to such non-traded shares should they wish to, provided that such application is consistent with, and does not conflict with, the legal and regulatory requirements and market infrastructure arrangements of any relevant jurisdiction.

For example, the digital register model may in practice provide a suitable and cost-effective pathway for certain private companies that wish to digitise their holding arrangements, including those participating in PISCES. Whilst acknowledging that many international listings are CSD-based, UK-incorporated companies that are listed or traded overseas may also wish to avail themselves of the digital register model arrangements to digitise the holdings of their overseas listed shares. This opt-in arrangement would also be available to shares traded on multilateral trading facilities that are not SME Growth Markets.

DEMAT's preliminary view is that further work should be undertaken following Step 1 to enable UK incorporated companies to have the option of applying the full suite of the digital register model arrangements described within this report to their securities that are outside the mandatory scope of the digital register model (i.e. where such securities are not admitted to trading on a UK regulated or SME Growth Market). We expect that such election should be made through their articles of association or by passing a shareholder special resolution.

We note that the existing Companies Act requirements for certificates in the case of shares, debentures and debenture stock (under sections 769 and 776) are already, in effect, permissive in that they only apply if the conditions of issue of the securities require certificates. Our preliminary view is that it would be consistent to apply this permissive approach for such companies by allowing them to opt into the full digital register model arrangements.

2. **Mandatory provision of shareholder information**

(a) Information requirements for shareholders on the digital share register

In order to facilitate the digitisation of the share ownership experience under the digital register model, DEMAT's preliminary view is that the Government should consider implementing further measures whereby shareholders would be required to provide the issuer with their email address (or other form of digital identity or electronic messaging solutions) and their bank account details. Issuers and their agents should retain the power to determine which electronic messaging solutions are supported.

DEMAT's initial view is that any non-compliance with the requirement by a holder to provide such information should not constitute an offence. Potential consequences, for further consideration, may be empowering issuers to disapply certain shareholder rights during the period in which a shareholder has not provided such details. For example:

(i) Failure to provide bank account details could mean that the issuer is not required to pay dividends or return capital until bank details are provided. Such dividend may be withheld in such circumstances, rather than forfeited. Unclaimed dividends would, nevertheless, be subject to any forfeiture provisions in the issuer's articles of association.

(ii) Failure to provide electronic communication details could mean that the issuer is not obliged to communicate or deliver information to the shareholder until electronic communication details are provided. However, this would be subject to any right of shareholders to receive a hard copy (e.g. through a right to opt-in) or circumstances where communications are required to be made in hard copy form (e.g. pursuant to requirements of the court or regulatory body). It may also continue to be necessary to provide hard copies where execution of deeds is required unless the legislation provides a solution that alters the current requirements.

Further, we consider that any requirement to receive details of a transferee before processing a share transfer risks adding complexity and friction to the process. Any failure to provide such information (i.e., email address and bank account details) should not restrict an issuer (or its registrar) from registering a share transfer for the purposes of section 711(1) of the Companies Act.

Shareholders should receive advance notice or communications warning and reminding them of these consequences in the event they fail to provide the required information.

DEMAT's preliminary observation is that such powers should be explicitly set out in legislation rather than requiring issuers to rely on their articles of association to invoke them.

Consideration should also be given to the interaction between these proposed electronic payment requirements and existing legal frameworks governing the timing and conditionality of payments. In particular, the Takeover Code includes provisions requiring payments to be made to target company shareholders within certain timeframes. DEMAT's initial view is that consideration should be given to whether scheme terms and takeover documentation should be amended where necessary to permit withholding of consideration where valid bank details have not been provided, without the offeror or paying agent being treated as in default of its payment obligations. If this approach were taken it would also require amendments to the Takeover Code and, in the case of schemes of arrangement, would also need to be acceptable to the court.

(b) Information requirements for members on the operator register

The proposals to apply information provision requirements to holders on the digital issuer register should also be extended to holders on the operator register.

Addressing these gaps through amendments to the USRs would lay the groundwork for the intermediated model by ensuring that the operator register contains sufficiently complete data to serve as the primary register for the UK-traded shares.

DEMAT's preliminary observation is that HMT should consider amending the USRs such that the following data would be required from members on the operator register:

(i) Electronic communication. An electronic communication field should be added for each member on the operator register, enabling electronic communications to be directed through the relevant system rather than requiring each issuer or registrar to maintain separate email records. This may encompass emails or other forms of electronic communications.

(ii) Consent flag for consolidated electronic communications. A mechanism should be considered through which a member on the operator register can consent to receiving electronic communications in consolidated form and in a manner that avoids duplication of the same information being sent to the same holder multiple times.

(iii) Electronic payment details. Members on the operator register should be required to opt in to payment through the relevant system and provide the necessary payment information to enable these payments to take place through the relevant system. Exceptions may need to be made to accommodate payments in currencies not supported in the relevant system.

These proposals would need to be further developed in conjunction with EUI who would be responsible for operating such systems.

(c) Privacy and data protection

The security of such required information should be ensured and be excluded from public inspection.

The power to make regulations protecting such information under section 120A of the Companies Act should be used to safeguard shareholder personal data.

Any electronic communication and payment details added to the register, whether the digital issuer register or the Operator register, should be exempted from the inspection of register obligations found within the Companies Act and the USRs, to avoid the risk of causing undue harm to investors by making such personal data publicly accessible.

(d) Inter-shareholder communications

Representations have been made that these Step 2 reforms should also facilitate inter-shareholder communications, leveraging the “proper purpose” test under section 116 of the Companies Act 2006 as the threshold for requiring issuers and their intermediaries to route such communications across the chain of ultimate beneficial ownership. The proposal is that, where a party demonstrates a proper purpose for contacting shareholders, the legal framework should require that such communications be distributed through the issuer and its intermediaries, rather than by disclosing shareholders’ electronic contact details directly to the requesting party.

DEMAT acknowledges this proposal and notes that it raises issues that will require further detailed consideration at Step 2 - including whether the “proper purpose” test represents the appropriate threshold, the allocation of costs associated with facilitating such communications, and the operational implications for administering such requests.

3. **Electronic communication and payments**

As set out in recommendations 5 and 6 of the Digitisation Taskforce's Final Report, moving to a fully digital shareholder communication model should result in system-wide significant cost savings and improvements in efficiency by removing the physical movement of paper and enhancing communication by reaching ultimate beneficial owners digitally. All of these improvements will reduce the substantial amount of paper flowing through the system and reduce costs for listed issuers.

Issuer representatives have called for fast-tracking the Digitisation Taskforce's proposal under Recommendation 5 to update company law so that the digital distribution of documents to shareholders becomes the default option[6]. They note that doing so would result in cost and time savings for issuers when communicating their AGM notices with shareholders and would support broader efforts to digitise the UK's shareholding framework.

(a) Digital Shareholder Communications

Under the current Companies Act framework, an issuer may only deliver communications in electronic form if the shareholder has agreed to that form of delivery, which agreement may be revoked. Similarly, an issuer may deliver communications by publishing information on its website, but doing so requires the issuer to obtain actual agreement from its shareholders or through a "deemed agreement" process which requires the satisfaction of certain conditions.

In addition, DTR 6.1.8R (applicable to issuers on a UK regulated market) provides that if an issuer uses electronic means to communicate with shareholders, there are certain procedures with which it must comply, including that the decision to use electronic means must be taken in general meeting, along with other requirements that reflect Schedule 5 of the Companies Act.

As set out in the Digitisation Taskforce's Final Report, 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. Issuer 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 issuer has an email address or other form of electronic communication mechanism in place.

[6] Meeting Expectations – AGMs for Growth Companies in the Digital Age / QCA, February 2026

DEMAT's preliminary view is that these changes should be fast-tracked to the extent possible:

(i) Removal of conditions on electronic communications: 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. Save in respect of shareholders who have opted-in to receive communications in hard copy form only, issuer communications with shareholders should be deemed valid for all purposes if they are: (A) sent to the shareholder in electronic form; or (B) placed on an appropriate website, and the fact of that publication is communicated to shareholders electronically.

Consideration should be made as to whether issuers should be required to provide a notification to shareholders of the fact that information has been provided through such electronic or website communication. This notification could be conducted using the last known communication method (thereby encouraging such shareholders to re-establish contact with the issuer through providing their email address).

Companies would still have the flexibility to issue physical communications if necessary or desirable.

Consideration should be made as to whether the ability to opt-in to receive hard copies should be expressed as subject to any contrary provisions in an issuer's articles of association.

(ii) Right to require hard copies: Following the receipt of a document in electronic form, a shareholder should continue to have the option to request to receive a hard copy version from the issuer under section 1145 of the Companies Act.

We have also received representations that the general position should be that, instead of allowing shareholders to receive hard copy versions or to opt-in to physical communications, issuers (and their registrars) should have discretion on whether communications to shareholders may be through electronic or physical means and that the use of physical processes should not be limited to vulnerable and digitally excluded persons.

(iii) Amendments to the Disclosure Guidance and Transparency Rules: DTR 6.1.8R (applicable to issuers on a UK regulated market) would need to be amended, as it currently provides that if an issuer uses electronic means to communicate with shareholders, there are certain procedures with which it must comply. 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.

(iv) Clarification regarding direct marketing rules: The ICO draft Direct Marketing Code of Practice, once finalised, will be a statutory code of practice providing guidance on direct marketing and compliance with GDPR and Privacy and Electronic Communications Regulations. DEMAT's preliminary view is that a clarification in the ICO Code should confirm that communications transmitted by or on behalf of an issuer, through registrars, intermediaries, or other authorised mechanisms to shareholders or ultimate beneficial owners constitute service messages, on the basis that registrars and the intermediaries are just acting as a conduit and not adding any marketing.

(b) Payments to Shareholders Should Have to Be Made Electronically

The Companies Act 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 an issuer's articles of association, with the current model articles specifying cheques as an acceptable form of payment to shareholders.

While many of the issuers with larger share registers have already mandated electronic payments under their articles of association, substantially reducing the overall number of cheques issued across the market in relation to dividends, many dividend-paying issuers have not yet done so. For many smaller issuers, communicating a change to shareholders and amending their articles may be considered disproportionately costly. In the absence of legislation, it would be difficult to achieve full adoption of electronic payments across the market.

DEMAT's preliminary view is that legislation should be brought forward to require and empower issuers whose shares would be in-scope of the digital register model to make all corporate action payments (including dividends and other forms of return of capital) to shareholders by electronic means. Bearing in mind that many issuers already exclude the option for cheque payments under their articles (and the highly onerous administrative burden of reinstating cheque payment arrangements), DEMAT does not envisage recommending any ability for shareholders to opt for cheque payments.

Further, with respect to shares held through the CSD, DEMAT's initial view is that the European Corporate Events Joint Working Group's standards should be adopted where payments take place electronically through the relevant systems – potentially subject to a review to identify any elements that may be incompatible with UK company law. Consideration will also need to be given to the due diligence and mechanisms required for making payments to overseas holders.

4. Backstop arrangements for residual shareholdings at Step 3

This section sets out potential backstop arrangements for shareholders who remain on digital registers at any Step 3 sunset date. The detail and design of any backstop mechanism will require further work, including detailed consideration of the legal, regulatory, operational, tax and potentially consumer duty implications of each option.

The options set out below are intended to frame the next phase of that work rather than to prescribe a final recommendation at this stage.

Background

As the transition from Step 1 to Step 3 progresses, a critical issue arises concerning shareholders who remain on digital registers at any Step 3 sunset date. This includes shareholders who are inactive, those who have failed to appoint a third-party nominee within the prescribed timeframe, and re-registered CSN participants whose holdings remain on the digital register. Without a backstop mechanism, digital registers risk becoming repositories for dormant shareholdings.

DEMAT members have raised a number of important considerations that will need to be addressed in the design of any backstop arrangement. These include:

(a) the need for pre-transition shareholder tracing and reunification programmes to minimise the number of shares which fall into default arrangements;

(b) issuer optionality whereby issuers retain meaningful choice over default arrangements rather than being steered toward a single mandated model;

(c) the potential market impact of any resulting large block sales on share prices and the broader investor base (which may be relevant for smaller issuers);

(d) KYC, sanctions compliance and transaction reporting requirements;

(e) the treatment of international holders; and

(f) protection of property rights under Article 1 of Protocol 1 to the European Convention on Human Rights.

Potential backstop mechanisms

The following three options have been identified as potential backstop mechanisms. They are not mutually exclusive, and a combination of approaches may ultimately be appropriate, potentially with the government-backed depository serving as the final backstop where other arrangements are not in place. Alternative options beyond those listed below may also emerge ahead of the report addressing Steps 2 and 3 and be considered.

(a) <u>Option A: Government-Backed Depository with Ongoing Administration (effectively a Government Sponsored Nominee)</u>

Under this option, a government-backed depository would be established to receive residual shareholdings, but rather than selling the transferred shares, the depository would hold them on an ongoing basis on behalf of the affected shareholders.

The depository would act as a custodian, preserving the shareholders' equity interest and continuing to receive dividends and other entitlements on their behalf. Former shareholders or their heirs who subsequently come forward would be able to reclaim their shares (or, if preferred, instruct a sale at that point) rather than being limited to a cash claim.

This option would address the concern that forced sale disadvantages shareholders by crystallising their investment at a point not of their choosing and removing the potential for future capital appreciation. However, it introduces significant operational complexity, as the depository would need to exercise or manage voting rights, process corporate actions, and administer ongoing dividend entitlements. The costs of ongoing administration would need to be funded.

(b) Option B: Issuer-Funded Corporate Sponsored Nominees (CSN)

Under this option, issuers who operate or are willing to establish a Corporate Sponsored Nominee would be able to direct residual shareholders on the digital register into a CSN at any Step 3 sunset date, rather than transferring them to a government-backed depository.

A CSN is an intermediated holding structure in which shares are held by a nominee on behalf of beneficial owners, with the service typically funded by the issuer. Use of a CSN as a backstop could be either mandatory (as the default arrangement for all issuers) or voluntary (available at the election of individual issuers who wish to provide an alternative to the government-backed depository).

This option has the advantage of respecting shareholders' existing rights by maintaining their equity interest within an intermediated structure, without triggering a forced disposal. It also preserves issuer optionality and avoids concentrating residual holdings in a single government entity.

However, there are important considerations including the ongoing cost to issuers of funding the CSN service for potentially disengaged or inactive shareholders, and whether the cost model could be amended at Step 3 such that costs are borne by the underlying beneficial owners.

(c) Option C: Government-Backed Depository with Forced Sale

Under this option, the government would establish a dedicated State-owned agent to receive all shares remaining on digital registers at any Step 3 sunset date. Upon receipt, the depository would sell the transferred shares into the market in an orderly manner and retain the net cash proceeds (after deduction of reasonable sale costs and administration fees) on behalf of potential claimants.

Former shareholders or their heirs would have a prescribed claims period within which to come forward and reclaim their net proceeds. It is anticipated that this model has the advantage of transferring both the asset (once liquidated) and the associated liability to the State, thereby enabling the elimination of digital registers and achieving full transition to the intermediated model.

Concerns about this option include the risk of perceived loss of capital appreciation for affected shareholders (whose assets would be converted to cash), the potential for large block sales to cause price slippage affecting the broader investor base, the negative public perception of a forced sale mechanism (particularly where affected holders include retail investors with low-value holdings), and the tax consequences that a forced disposal may trigger for individual shareholders.

Cross-Cutting Considerations

Regardless of which option or combination of options is adopted, a number of issues will need to be resolved. These are summarised below.

(a) Categories of affected shareholders

The backstop arrangements will need to accommodate at least the following categories of shareholders remaining within the (non-CREST) digital register model at any sunset date: (i) untraceable shareholders with whom issuers have lost contact and who cannot be located through reasonable reconnection efforts; and (ii) shareholders who, despite being traceable and receiving communications about the transition, do not take the required action to appoint a third-party nominee by the sunset deadline (which may include shareholders who hold fundamental objections to the intermediated system, those who are unresponsive, or those unable to find or agree terms with a willing nominee).

(b) Unclaimed dividends

DEMAT's current view is that unclaimed dividends should remain with the issuer and continue to be dealt with under issuers' existing articles of association provisions regarding dividend forfeiture. This approach avoids the complexity of transferring historic dividend entitlements to any backstop entity and ensures that unclaimed dividends continue to be administered through established mechanisms. Further consideration will be needed on the interaction between any backstop mechanism and the treatment of dividends accruing between any sunset date and the point at which shares are sold or reclaimed.

(c) Property rights and ECHR considerations

Any backstop mechanism will need to be designed with regard to Article 1 of Protocol 1 to the European Convention on Human Rights (protection of property), ensuring that it operates in the public interest and in accordance with conditions provided for by law. The abolition of bearer shares pursuant to the Small Business, Enterprise and Employment Act 2015 provides a relevant precedent. Further legal analysis will be required to assess the compatibility of each option with Convention requirements.

(d) Governance of the depository

To the extent that a government-backed depository is established (whether under Option A or Option B), further work is required on its governance structure. One approach is to establish the depository as a dedicated statutory arm's-length body of HM Treasury, structured on the governance model used for the UK's Dormant Assets Scheme. Under this model, the entity could be incorporated as a Companies Act company limited by shares, wholly owned by HM Treasury, and governed by a statutory framework that defines its mandate, powers, liabilities and reporting duties:

(i) Shareholder and Sponsorship Model - HM Treasury could serve as the sponsoring department, responsible for setting strategic priorities, approving the annual framework document, and ensuring compliance with the overarching public-spending and accountability regime. As is the case for Reclaim Fund Ltd (RFL), UK Government Investments (UKGI) could act as HM Treasury's shareholder representative, overseeing appointments to the Board, monitoring performance, and ensuring that the depository adheres to best-practice corporate governance and risk-management standards. UKGI already performs this function across a portfolio of complex public bodies and investment entities, including its shareholder role in the National Wealth Fund; this experience provides a highly compatible oversight structure for the depository.

(ii) Board and Operational Independence - The depository could have an independent Board responsible for strategy, risk, audit and control, with a majority of non-executive directors and an FCA-authorised executive team where required. As with RFL, the entity should operate at arm's length from Ministers, with clear separation between shareholder oversight and day-to-day administration of transferred shareholdings, claims, and proceeds. This includes ensuring that market-facing disposals (sale of transferred shares) are executed under transparent policies designed to minimise market impact and avoid conflicts with wider Government investment activities.

(iii) Statutory Mandate and Public Accountability - Legislation could confer explicit powers on the depository to: receive all residual holdings transferred at the Step 3 sunset date; liquidate those holdings in an orderly manner; retain and safeguard net cash proceeds; administer claims from resurfacing shareholders or heirs for a defined period; and report annually to Parliament via the sponsoring department. The body could be subject to NAO audit, full compliance with Managing Public Money, and transparency obligations consistent with other Treasury-sponsored ALBs. This model ensures strong accountability while preserving the operational independence necessary for fair treatment of investors.

Alternatively, there may be scope to leverage an existing entity such as RFL or the Public Trustee.

These and other structural options will need to be assessed in further detail.

(e) Awareness campaign

Whichever backstop model is adopted, DEMAT's preliminary observation is that a second dedicated awareness campaign should be developed and delivered, together with a comprehensive Q&A resource, to ensure that shareholders, issuers, registrars and other market participants are fully informed about the backstop arrangements and their implications. The awareness campaign should be developed in coordination with the legislative framework and disseminated through issuers, registrars, the Gov.uk website and civil society organisations. DEMAT members have emphasised the importance of setting out a clear timeframe for this campaign.

5. **Other Steps 2 and 3 issues**

In addition to the topics addressed in this section, DEMAT records its preliminary observations on the following issues:

(a) **Capacity of the intermediary market** – Steps 2 and 3 will seek to address the capacity and willingness of the intermediary market to absorb the volume of new clients that a full transition to the intermediated model would entail, many of whom will have small holdings with limited turnover. Consideration will be given to points such as the commercial incentives for intermediaries to service such accounts and the operational and regulatory requirements for onboarding a large population of shareholders who have not previously held shares through a nominee.

(b) **Shareholder rights** – Further work is required to ensure that legal rights accruing to non-CREST shareholders under the Companies Act and related legislation are effectively accessible to ultimate beneficial owners, either directly or through the intermediated securities chain.

A comprehensive review of these rights should be conducted ahead of the transition to the intermediated model. The extent of such rights that should be conveyed to the ultimate beneficial owners would be set out in the next report addressing Steps 2 and 3. To support this, there is a strong case for a coordinated mapping of communications, rights and operational flows across the ecosystem, including the permissioned sharing of data and the transmission of investor instructions between actors.

(c) **Costs allocation** – The transition to the intermediated model should be considered in the context of a more efficient, digitally enabled market structure, in which overall system costs are expected to decline over the medium term, with benefits accruing across issuers, intermediaries and investors. Within this there is ongoing discussion about the allocation of costs across the intermediated securities chain following the transition to the intermediated model, including in particular: (i) considerations around the linkage between pricing and extent of shareholder rights facilitated; and (ii) consideration of viable options for ensuring the availability of an intermediated model compliant custody service available to registered shareholders who have not chosen to hold through an intermediary and whether such options should incur a charge.

(d) **Re-registration of inactive CSN interests** – Corporate Sponsored Nominees (CSNs) are custody services that allow shares to be held on behalf of investors by a nominee, typically at nil cost to the investor and funded by the issuer. Over time, a substantial and growing proportion of CSN participants across the UK market have become inactive, “gone away” or unpayable, giving rise to significant costs for issuers in maintaining custody of de minimis or abandoned holdings. Issuer representatives have called for the re-registration of inactive CSN participants’ holdings onto the digital register to be addressed as a matter of priority ahead of Step 3, so that issuers can commence the clean-up of CSN holdings at the earliest opportunity and undertake reunification, tracing and forfeiture processes in an orderly manner prior to the Step 3 sunset date.

(e) **Abolishing the headcount test** – Shareholder representatives have raised concerns regarding the proposal in the Final Report (Recommendation 9) to remove the headcount test from section 899 of the Companies Act in relation to schemes of arrangement under Part 26. While the Final Report recommended removal on the basis that the test is widely considered anachronistic, irrelevant and burdensome particularly in the context of intermediated holdings, some stakeholders have expressed reservations about the implications of that change on the basis that they believe this test is an important protection for minority investors.

(f) **Exceptions to the intermediated model** – There may need to be exceptions to the general proposition that direct ownership of shares outside a CSD should not be possible in the future, for example, to accommodate overseas listing arrangements because of legal, regulatory or practical problems under the laws of other countries.

(g) **Interoperability with tokenisation initiatives** – Tokenisation initiatives using distributed ledger technology are being actively developed and deployed in international capital markets, and the FCA and Bank of England published a consultation on tokenisation in May 2026[7]. The architecture for tokenisation has the potential to be inconsistent with the Step 3 proposal for a single, centralised intermediated model. For example, the Digital Securities Sandbox, which tests the issuance, trading, and settlement of tokenised securities in a live regulated environment through to 2029, has been created to specifically encourage innovation in financial market infrastructure.

DEMAT notes that tokenisation may be operational in UK markets before Step 3 is initiated and that the detailed specification for Step 3 implementation remains to be finalised. DEMAT's preliminary observation is that the DEMAT and tokenisation initiatives should be reviewed side-by-side and, where appropriate, consolidated into a coherent overarching deployment strategy and transition plan, to ensure that the UK does not adopt an end-state for Step 3 that is inconsistent with tokenised market structures being deployed domestically and internationally. This will require close coordination between DEMAT and the relevant regulatory workstreams on tokenisation.

[7] Call for Input – The future of tokenisation (a joint vision from the authorities for UK wholesale financial markets) / Financial Conduct Authority & Bank of England, May 2026

Appendix 6

Terms of Reference for Dematerialisation Market Action Taskforce

Background

On 15 July 2025 the Digitisation Taskforce published its final report, which recommended a staged approach to removing paper share certificates and ultimately moving to a fully intermediated system of shareholding in the UK. The government accepted the recommendations made in the report and set out in its response how it intends to take these forward. The report recommended a three-step process:

- Step 1 – Firstly, existing paper-based or 'certificated' share registers will be replaced by 'digitised' share registers, temporarily replicating the system as it exists today but without paper share certificates. This will happen before the end of 2027.

- Step 2 – Secondly, improvements will be made to the intermediated system, in which most shares are already held, to facilitate the ability of beneficial owners of shares to exercise their rights effectively and efficiently through intermediaries. These improvements will be made over the course of this Parliament.

- Step 3 – Finally, once these improvements have been made, shares on the temporary digital registers will transition into the intermediated system. The report recommended considering methods for delivering this transition, such as making the digital registers a 'one-way street', with shares moving into the intermediated system when shareholders take corporate actions, and/or setting a 'sunset date' by which all shares need to move.

A key recommendation in the report was to establish a 'Technical Group' to work with industry stakeholders to deliver Step 1, including setting a precise date before the end of 2027 for this to take place, and creating a detailed plan for the changes which the market will need to make as part of Steps 2 and 3.

The government has appointed Mark Austin to establish and chair the new Dematerialisation Market Action Taskforce (DEMAT). Mark is a corporate partner at Latham & Watkins, specialising in capital markets, and is a member of the Capital Markets Industry Taskforce. He delivered the Secondary Capital Raising Review in 2022 and was a member of the Digitisation Taskforce.

DEMAT forms one part of the government's wider Wholesale Financial Markets Digital Strategy. The government will separately appoint an industry expert as Digital Markets Champion, who will provide leadership from, and for, the sector on wider wholesale market digitalisation, looking at how digital technologies (such as tokenisation) could transform our financial markets. The Digital Markets Champion will be announced in due course.

Objectives and timeline

1. The government has asked the Chair to report back by Summer 2026 with a recommended 'go-live' date for Step 1, which should be before the end of 2027, and an implementation plan for the actions industry participants need to take to deliver this. This plan should include the Taskforce working with industry to implement and communicate the move to all stakeholders, making them aware of how the process will affect them.

2. The government also asks the Taskforce to begin working with market participants to identify and implement the actions they need to take as part of Step 2, including providing any further detail that may be required by firms – with the aim of the market being ready for Step 3 to begin by the end of this Parliament. These actions should include firms communicating and explaining any changes made in Step 2 to affected stakeholders. The Taskforce may also highlight to the government and/or the regulators any actions beyond those already set out in the Digitisation Taskforce report which it identifies that the government and/or regulators need to pursue under Step 2.

3. The Taskforce is also asked to assess progress in implementing Step 2 and to recommend a detailed plan for all shares to transition into the intermediated system in Step 3. The government has set out below the key principles which it considers to be the criteria for Step 3 to take place. The Taskforce should set out its recommended transition plan for Step 3, which should include a decision on the optimal method and timing for transitioning all remaining shares into the intermediated system, including whether a 'one-way street' and/or a 'sunset date' should be implemented or not.

Governance

The Chair will decide the composition and structure of the DEMAT and determine the processes that will be followed in order to meet the objectives set out by the government.

The Chair may invite any relevant stakeholders to be part of the Taskforce as appropriate, ensuring it properly engages the different interested stakeholder groups. It is also important that the views of vulnerable and older investors are considered and accounted for.

Representatives from the government, the Financial Conduct Authority, the Bank of England and other relevant public bodies may attend meetings of the Taskforce as observers.

Criteria for assessing readiness for Step 3

The government has set the following key principles which can be used to assess progress on Step 2:

1. Beneficial owners can exercise their rights effectively and efficiently through intermediaries, based on the 'baseline service' recommended in the Digitisation Taskforce report.

2. Beneficial owners can receive information promptly and transparently through intermediaries.

3. Arrangements are in place for intermediaries to onboard remaining shareholders effectively

and efficiently.

4. Investors benefit from choice and transparency on the services that they wish to receive from intermediaries based on their different preferences.

5. Relevant stakeholders are informed about the transition, how it affects them and what they need to do – and appropriate solutions are in place where the investor cannot be identified or contacted.

6. The interests of vulnerable and older investors are considered and accounted for in the transition plan.

Appendix 7

DEMAT Composition

Chair

Mark Austin CBE, Latham & Watkins

Members

Ben Mathews, BP

Cevdet Sumbultepe, Euroclear

Chris Brewster, Citi

Heather Benjamin, ShareSoc

Kit Atkinson, Equiniti

Matthew Johns, Hargreaves Lansdown

Michael Sansom, Computershare

Paul Vos, Independent

Secretariat

Johannes Poon, Latham & Watkins

Megan Williams, Department for Business and Trade