UK Shareholders' Association.

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The Private Investor • Issue 168 • January 2014

Holding shares directly without paper certificates

In the last issue of The Private Investor, I reported that pressure from the European Union to bring about an early end to paper share certificates was softening. It now seems even more likely that what is technically known as the "mandatory dematerialisation" of shareholdings will be delayed, perhaps for as long as ten years. This is likely to be principally a result of UK government pressure, as our politicians are fearful of what is believed to be millions of voters, pensioners in particular, rising in rage if their share certificates become worthless.

But would rage be the right reaction? 0nly if we're forced into nominee accounts: that would be a scandal.

As I noted last time, the holding of paper share certificates is already being eroded and this is a process which may be difficult to stop. Power rests with the stockbrokers and by interposing themselves between investors and the companies in which they invest, stockbrokers are able to levy charges which, except for those who may choose this means of holding their investments, are in reality completely unnecessary. I refer, of course, to pooled nominee accounts, into which private investors are enticed, cajoled and bullied, with the alternatives of holding paper certificates or using personal (sponsored) Crest accounts either made unavailable or priced beyond reach.

All brokers charge for providing nominee accounts, in a variety of ways. Some charge for collecting and remitting dividends, some for providing company reports and attending AGMs, some for other things. Your investments are a source of a broker income after you've paid for them and if you want out they'll charge you for that too whether or not they are sold. But if you hold your shares directly from the companies which issue them, there will be no extra charges for what the Companies Act tells us are shareholder rights. Using a nominee account breaks the link between investor and company and what should be the investor's automatic rights, paid for by the company, are now only available, as a concession, from the nominee account provider, the broker.

The pressure to go electronic, to "dematerialise" shareholdings, is inexorable. Even the UK government is probably hoping that by, say, 2025, most of those who value the direct legal ownership of shares guaranteed by their paper certificates will have died off. That is to treat the matter as a "people problem" but it's not. It's a systemic problem, which will become worse not better if nothing is done. Fortunately, a solution is on the horizon, in the "direct record model" which was presented to UKSA's members at a specially convened conference last July (see Issue 165). Set out below is how the direct record model will work. I would like all members to consider it, however you currently hold your shares. See if you can find any flaws in it

and please let me know if you do, because as things stand I can see a lot to be gained if we could, collec¬tively, give the model our support.

Eric Chalker, Policy Co-ordinator

The Direct Record Model will work this way:

1. Just as now, you will need to have an account with a stockbroker which is satisfied that it "knows its customer".
2. To buy shares, you will give an appropriate instruction to the broker which then carries out the purchase just as it would do today.
3. 0nce the purchase the broker has undertaken on your behalf has been car¬ried out, you will receive a contract note from the broker just as now and also just as now the registrar will be notified of the transfer of those shares into your name.
4. Instead of a paper share certificate sent to you by the registrar via your broker, you will receive a notification, on paper or by email (your choice), of the unique number which identifies your shareholding on the company's register. If the purchase is to supplement an existing shareholding, your broker will be able to request that the shares are added under the existing unique number (assuming those shares are already in dematerialised form).
5. Because your shareholding will be separately identified and recorded on the share register of the company in which you have bought and become the legal owner of shares, you will have the same relationship with that company as has been the case when holding a share certificate printed on paper. Your right to receive company reports, dividends and other material (including any additional shareholder benefits) will be exactly the same.
6. To sell all or some of the shares you hold in a company, you will provide your unique number as part of the sale instruction to any broker with which you have an account, which might first check your holding with the registrar before carrying out the sale just as it would do now.
7. You will receive a contract note from the broker in the usual way and the registrar will be notified of the transfer to enable settlement of your sale trans¬action.
8. The registrar will amend the share register, reducing your shareholding by the requisite amount and then the transaction will be complete. You will receive the sale proceeds from your broker in due course, just as today.

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The Money Advice Service Under Pressure

In 20 10 an extension to the Financial Services and Markets Act 2000 enshrined into statute a body called the Consumer Finance Education Body (CFEB), to be under the joint control of the Financial Services Authority (FSA, the regulator at the time) and the Treasury. UKSA made strong representations both in public and private that this was a mistake, citing potential conflicts of interest, confusion of objectives and weak governance.

It came as no surprise when a recent Treasury Select Committee report delivered a scathing attack on the appointed CFEB - the Money Advice Service (MAS) - citing (ahem) conflicts of interest, confused objectives and weak governance. The report stopped short of demanding immediate closure but called for an independent review of the service to report next summer and expected to have a significant bearing on whether it continues. 'We are unconvinced the service has adopted the right strategy or that it performs the correct role.' In truth, to those of us with historical perspective this was a car crash that could be seen coming a long way off. UKSA has always been a staunch promoter of financial education and unbiased financial advice. It has followed, with a weary eye, the history of the regulator's involvement with financial education. It makes a depressing story.

The FSA (predecessor of the current regulator, the Financial Conduct Authority) first introduced its consumer education work in 1999. Six years of scattered initiatives followed: 'Education for Financial Capability'; 'Adult Learning Programme'; 'Consumer Publications'; 'Consumer Help Website'; 'Consumer Campaigns'; 'Consumer Research'; Consumer Helpline; 'Comparative Tables'; 'Interactive adult learning programme'; and 'tools to analyse consumer products and their inherent risks'~ These initiatives became subsumed into a 'National Strategy for Financial Capability' first given prominence in the FSA's 2005/6 Business Plan, which trailed (inter alia) 'launching a financial healthcheck tool on websites'. Five years of work on the National Strategy followed. In 20 10 the activity was appointed as CFEB and branded as MoneyMadeClear, (once again announcing 'a new money guidance pathfinder to include an advice website'). After a year or so, but not before some branding expenditure, 'MoneyMadeClear' was quietly renamed 'Money Advice Service'.

Three business plans followed, for (April - March) 20 11/12, 20 12/ 13 and 20 13/ 14. These remarkable documents, weighing in at 20, 28 and 46 pages respectively, manage to contain not one single word on achievement against the objectives in the previous year's plan; not one word of evidence to substantiate 94 pages of promises. That probably didn't matter much, as it happens, given the weakness in the FSA's oversight exposed in the

. Committee's report. Thankfully, the Select Committee review was announced.

UKSA responded to the call for evidence with a 1600-word submission supported by 6000 words of evidence. It focussed particularly on the evidence of governance weaknesses and made proposals to correct them. It made a detailed critique of the web offerings as evidence of lack of competence (Martin Lewis of

MoneySavingExpert.com, in his later verbal submission to the Committee, rather more succinctly described the website, with particular reference to an interactive tool called the Health Check, as 'crap'). The Committee report twice referenced UKSA's submission.

So here we are. After some 15 years of attempting to attach an education function to the regulator, and £250m+ of expenditure (depending on what gets counted — the 20 13/ 14 budget was £46 million for Money Advice and £35 million for Debt Advice), we have achieved what exactly? The Committee's call for an independent review needs to be heeded. The Treasury wants to conduct its own review, but its motives are questionable: it bears some responsibility for the mess, and it likes the current structure and particularly the funding method. The MAS is funded not out of general taxation but out of two separate levies on the financial services industry, one to cover 'Money Advice' and one to cover 'Debt Advice' This is equivalent to the foxes funding the chicken-wire (c.f. the current excitement about green energy funding) and it's a hidden tax on all savers. It is hard to suppress the suspicion that an ill-educated public suits both the industry, which can continue to peddle its unsuitable products, and the Treasury, which depends on the industry's tax take. And of course a genuinely effective free advice service is a threat to the existing 'advice' industry.

The evidence of Sajid Javid (Financial Secretary to the Treasury) to the Committee in June 20 13, after all other evidence had been taken, was not encouraging: 'I think MAS has an important role in this area and, from what I have seen so far, it is carrying that out effectively, although it is early days with this new mandate' and he defended the Health Check with 'I think it is a very useful tool'. In the face of the evidence this is denial on an epic scale (or, more likely, lack of interest allied to weak briefing).

Four years (or 15 years?) may be 'early days' for the Treasury but the rest of us would prefer to see a little more urgency and a lot more understanding of what is needed to build a financially-literate society.

John Hunter