

UK Digitisation Taskforce: The end of the road for paper share certificates in the UK

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On 10 July 2023, the UK's Digitisation Taskforce published its interim recommendations on the eradication of paper-based processes in the UK securities settlement infrastructure.

Dematerialisation of paper share certificates

The Digitisation Taskforce (the Taskforce) was established in July 2022, as a recommendation taken forward from the UK Secondary Capital Raising Review (July 2022). Its aim is to drive forward the full digitisation of the UK shareholding framework by eliminating the use of paper share certificates, and in general seeking to improve the UK's intermediated system of share ownership.

The Taskforce has received overwhelming support from stakeholders for the removal of paper share certificates given the associated administrative burden and cost. There are, however, different views on the timetable to make this change (a 'big bang' vs. a progressive approach) and where digitised shares should sit in the securities ecosystem. The [interim report](#) makes a series of recommendations.

- **Recommendation 1 – legislation should be brought forward, and company articles of association changed, as soon as practicable to stop the issuance of new paper share certificates.**

The Taskforce saw no reason why legislation should not be brought forward in short order to eliminate in the near term (e.g. six months) new share issuances in certificated form.

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

The Taskforce also saw no reason why the government should not, after consultation on the time required to make the change (which will depend upon the eventual architecture of the future securities settlement infrastructure), bring forward legislation to require the dematerialisation of all share certificates at a future date.

- **Recommendation 3 – the government should consult with issuer and investor representatives on the preferred disposition of 'residual' paper share interests and whether a time limit should be imposed for the identification of untraced Ultimate Beneficial Owners (UBOs).**

A significant challenge in dematerialising shares is how to deal with untraceable certificated shareholders. The Taskforce has sought feedback on three possible solutions:

- issuers maintain a nominee account for such holdings with the responsibility to continue — for a reasonable time — to seek out UBOs;

- such holdings are dematerialised and sold in the market, with the issuer retaining the funds in a segregated account to return to shareholders who identify themselves within a prescribed time limit; and
- all or a portion of the proceeds of dematerialised shares without identified UBOs are transferred to an authorised reclaim fund under the UK's Dormant Assets Scheme (which seeks to reunite people with their unrecognised financial assets and uses the money for 'good causes' where this is not possible), but with the obligation of the scheme to compensate UBOs who come forward within a prescribed time limit.

Design of a fully digitised share model – alternative depository models

There are a variety of stakeholder views on the architecture for a fully digitised system, and the Taskforce is seeking feedback on four possible models (the third of which it considers to be the leading option):

- first, a digital version of the current system, where a subsidiary register in digitised form is maintained by an intermediary, typically the current registrar. This would involve electronic transfers between this register and the central securities depository (CSD) in which all currently dematerialised shares are recorded and settled post-trade (the CREST system in the UK);
- second, enhance the ability of certificated shareholders to become direct members of the CSD (with the shareholder remaining directly on the issuer's share register);
- third, mandate all certificated shareholders move to the CSD but intermediated and administered through a nominee (as the vast majority of digitised shares are currently held); and
- fourth, step beyond the current infrastructure and completely reimagine the securities holding, trading and settlement framework to realise the possibility of Distributed Ledger Technology, where all transaction and actions are confirmed by all parties on inception.

Transparency and communication obligations in the intermediation chain between issuers and UBOs

The Taskforce aims to improve the ability by which: (a) issuers can identify and communicate with UBOs, and (b) UBOs can exercise rights associated with the shares intermediaries hold on their behalf.

- **Recommendation 4 – intermediaries should have an obligation, as a condition of participation in the clearing and settlement system, to put in place common technology that enables them to respond to UBO requests from issuers within a very short time frame.**

On the basis that UBO information will be available to intermediaries (who will have had to undertake AML and KYC on their customers) and in light of the costly, multi-layered process issuers currently have to go through to collect UBO information, the Taskforce believes that intermediaries should put in place common technology that enables them to respond to issuer UBO requests in short order.

- **Recommendation 5 – intermediaries offering shareholder services should be fully transparent about whether and the extent to which clients can access their rights as shareholders, as well as any charges imposed for that service.**
- **Recommendation 6 – where intermediaries offer access to shareholder rights, the baseline service should facilitate the ability to vote, with confirmation that the vote has been recorded, and provide an efficient and reliable two-way communication and messaging channel, through intermediaries, between the issuer and the UBOs.**

The Taskforce considered whether an intermediary should be mandated to provide the ability for UBOs to exercise the rights attaching to their shares (e.g. voting rights or participation rights) or, provided the intermediary is transparent on their service proposition such that the UBO is aware of any rights foregone, whether this should be left to market forces, with UBOs electing to use the platforms that provide the level of function and ability to exercise

shareholder rights that they desire. The latter approach is preferred by the Taskforce.

- **Recommendation 7 – following digitisation of certificated shareholdings the industry should move, with legislative support, to withdraw cheque payments and mandate direct payment to the UBO’s nominated bank account.**

Next steps

After consideration of feedback on the above interim recommendations, the Taskforce intends to go into more detail on the practical steps and timetable to implementation, with a report setting out its final recommendations to be delivered within six months.

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