



# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## Dematerialisation set to challenge issuers and investors alike

Dematerialisation, it's not the method by which crew members transport to planets in Star Trek films so much as an aspect of security ownership that is set to become even more critically important. In the UK, a minority of holders still prefer to hold physical certificates that reflect their individual records on the register. The majority of holdings are held in electronic format inside CREST, a move seen as improving the security of any asset, as well as enabling faster transaction clearing.

Whilst electronic holdings grant the benefits of ownership in the form of price fluctuation along with dividend and scrip payments, they will almost always be registered to a nominee. Consequently, the beneficiary is reliant on the nominee passing on communications and voting opportunities offered by the issuer. The wish for direct communication from the issuer is a motivation for holders still electing to have their holding in certificated form via the company's registrar. However, any subsequent trading of their holding via a market can be delayed as it requires the dematerialisation of their holding into a CREST account and probably into a nominee's account.

Change is coming, however. Regulation that stems from the EU means there is an inexorable move to end the traditional approach. However, a dematerialisation solution that still protects individual security registration will have to be achieved. Although the UK will imminently complete its departure from the EU, it seems inevitable that the drive to effect this change will persist.

The key driver is CSDR (Central Securities Depositories Regulation), which is one component of EU legislation designed to improve the functioning and stability of financial markets, whilst harmonising markets across Europe. T+2 settlement cycle is mandatory for trades across the EU and from last summer CSDR also facilitated the reporting of settlement internalisation for asset administrators. By 2023, all newly issued securities will have to be in a dematerialised format, whilst by the start of 2025, all traded securities will need to be held electronically.

Beyond faster settlement, dematerialisation offers other benefits to issuers & holders alike. Even though the UK is an early 'demat' adopter, with the functionality core to CREST, some smaller issuers have remained sluggish to embrace the new technology, frequently deterred by a perception of limited benefit and the idea that it will be expensive to execute. By all accounts however – and even with a relatively small cohort of shareholders – the advantages of being able to execute corporate actions quicker, to easily monitor register movements and maintain the register in real time should be embraced, rather than feared.



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## **Dematerialisation set to challenge issuers and investors alike (continued)**

Details of how the mandatory dematerialisation process will work in three years' time remain sketchy. However, at Avenir we're already employing smart technologies to put our client issuers and their investors ahead of the curve. Avenir Registrars do a lot of things differently: for example we don't charge a CREST traffic fee for registry maintenance, so no nasty surprises for issuers. Additionally, every physical certificate we issue now comes with a QR code as standard. So instead of the inconvenience of having to use an expensive, premium-rate broker support line, a holding can be easily checked, free of charge, just by a quick scan of the camera on any smartphone. The certificate's QR code takes the enquirer straight to the holding - including the impact of actions such as scrip dividends or stock splits - securely and in a matter of seconds.

Further moves to accelerate the process of full dematerialisation for quoted issuances are to be expected in the years ahead. Nevertheless, for unquoted entities, paper certificates will remain in circulation, although perhaps simply acting more as a receipt of the underlying holding than their registrar records. Ultimately, it's important for issuers to understand that the process of moving a share register into the digital age isn't as complex or as costly as they may think. What's more, once you have adopted an electronic register, benefits abound for all parties, particularly if a listing is even a distant prospect. Whether that's communicating with your holders, gaining a better understanding of your investor profile, allowing easier handling of otherwise burdensome corporate actions or simply offering beneficial owners a more convenient way of validating their holdings, there's no shortage of upside when it comes to dematerialisation so beam up!

The tools are here - don't fear the inevitable change! Avenir can help you navigate the world of securities registration and benefit from electronic registers.

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