



AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

The rise of investor activism – what it means for issuers

Investor activism is surging. Increased use of technology is enabling mainstream stockbrokers to encourage their customers to exercise democratic rights when it comes to voting on company resolutions. This means that for the first time in decades, individual investors are readily able to help sculpt the companies they own a slice of in a way that meets their own objectives – something that has never been more important as boardrooms tackle big issues such as the move to net zero, the need for better employee diversity and the benefits of simply being good corporate citizens. The enhanced communication pathways nevertheless have to overcome an infrastructure that dates to a distant past. The distinction between legal ownership of stock through custodian owned nominee companies and the beneficial holders issuers need to connect to, as ultimate owners, remains a formidable barrier to handle, despite some legislative efforts (SRD2 etc). Furthermore, intermediary institutions have to address streamlining of corporate actions communication channels, and this is a priority competing with other pressing pulls for most. But what does handling this burden look like for issuers? And can a registrar help lessen the load? There are two distinct questions here, the first revolving around the requirement to track nominee holdings back to beneficial owners, whilst the second points towards the collation of votes cast in a timely manner, especially for those submitted before the general meeting takes place.

Does a registrar need to make any special provision for shares held via a nominee?

Better tracking of nominee holders is likely only to happen with further enabling legislation. Registrars can make provisions for the maintenance of “shadow registers” but, whatever, enhancements they make require mechanisms to be in place at nominees to divulge records promptly. Many nominees now respond in good time but not all are geared up to be consistent and where the holder on their records are other nominees, the chain may grind down to a paper chase and furthermore where a holding is offshore, conflicting laws may cause further delays. Of course, companies have the right to seize stock if the disclosures are not forthcoming but even this is a drawn out matter fraught with its own risks to issuers. The provisos aside, registrars are key in facilitating the processes and more automation will invariably improve efficiency. As for vote collation it remains surprising that voting mechanisms remain bound to old infrastructure. The need for registrars to offer better solutions remains pressing, especially when they have a direct connection to holders of certificates. The whole issue of share certificates and paper communications remains a huge, missed opportunity.



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The rise of investor activism (cont'd)

With net zero targets in place, it is a surprise that paper is not legislated away. In a day and age when virtually all shareholders have access to smartphones and willingly engage in e-commerce, the resistance to switch from paper driven processes is astounding. There needs to be legislative change to make electronic processing the default; in that context the UK missing out implementation of Article 3 of CSDR is truly stunning. Alongside this, registrars systems need to facilitate electronic methods. At Avenir, we took a small step with QR codes on certificates in 2018 and we have much more in place to facilitate a drive to electronic records.

Does the issuer need to configure their systems/processes in a way to account for the votes of smaller shareholders?

The issuers rely on their registrars who are connected into the CREST system, but it again requires the registrars to be responsive and powered with vote recording technology to streamline the process. The voting also needs enhanced proactive communication from the issuer via the registrars to the various corporate actions departments to help prompt the desired responses.

What are the bottlenecks in terms of getting advance votes counted and communicated to the committee of the GM in good order?

This is largely contingent on the organisation of the registrars. They need to be able to channel data and without a doubt technology in use aids the process. Avenir Registrars' digital-first approach to registry puts issuers at an advantage here, enabling us to execute these processes in a highly efficient manner. Issuers may have been able to "dodge a bullet" in recent years, but the evidence suggests this won't be sustained. Getting the right registry team alongside helps.

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