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## Editorial

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### The Demise of the Share Certificate?

A new name "Scripophily" had to be coined a few years back for the collection of antique bond or share certificates. These decorative examples of the engraver's art often resulted from a practical need — for distinctive, hard to counterfeit, bearer documents of title. However, similarly imposing documents were also issued to registered shareholders whose ultimate proof of title actually lay in the entry against their name in the company's register of members. Such certificates of registered ownership were given further apparent importance by being given under the Common Seal of the company.

Over the last century or so, the reliance placed on share certificates has grown out of all proportion to the role envisaged for them by the Companies Acts. Case law has grown up whereby the doctrine of estoppel has been applied in some circumstances to make a company liable to persons who act in reliance on wrongly issued certificates. Banks commonly take "equitable" mortgages of shares by deposit of the certificate without even taking the precaution of issuing a "stop notice" against the shares. Companies usually require a formal indemnity backed by a bank or insurance company before issuing a duplicate share certificate to replace one lost or mislaid. It would be regarded as ridiculous to accord such significance to a bank statement but the above are regarded as quite natural incidents of share certificates — although in both cases book entries are the basis of the holder's title.

In consequence, although the Stock Exchange has commendably streamlined its settlement procedures using the "new technology" to great effect in the "Talisman" system, much needless, and expensive, movement of paper in the form of transfers and share certificates is still involved.

The Stock Exchange is well advanced in the formulation of an even more streamlined "Book Entry Transfer" settlement

system for gilts and the enabling Stock Transfer Act 1982 is now on the Statute Book. The Exchange is now turning its attention to refining further the settlement procedures for corporate securities. To this end the Securities Industry Consultative Committee has submitted to the Chairman of the Stock Exchange its "Report on Equity Settlement".

This proposes the establishment of a Central Settlement Office to control movements on "uncertificated accounts" in listed companies' registers of members. This new procedure would apply to institutional holdings and the holdings of active private investors — the option would however remain, particularly for small, less active, investors, for holdings to be kept in certificated form. Certificates and transfer forms would be dispensed with for uncertificated accounts and all records and transactions could be in computerised form (though this would not be obligatory for the companies concerned).

One possibility was rejected: the creation of one central holding nominee (as contrasted with the existing "SEPON" settlement nominee under the Talisman system). This would have made it more difficult for companies to keep track of the identity of their shareholders and would complicate the payment of dividends and other entitlements and the exercise of votes. The new proposals are an ingenious compromise which will permit all holders to appear separately on the register so they can be communicated with direct by the company.

Company secretaries and others involved with the maintenance of registers of members should make a point of studying the proposals in case there should be a need to make representations to the Stock Exchange on detailed practicalities — now is the best time for such comment before the proposals become more definitive.

We welcome the proposals which would bring law and practice into line with modern realities. Some may take the view that the sooner share certificates are relegated to their more tangible role of decorating lampshades the better.