SLAUGHTER AND MAY

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Digitisation of shares in UK traded companies: DEMAT publishes implementation plan

The Dematerialisation Market Action Taskforce (DEMAT) has published a report setting out the steps that need to be taken to remove paper share certificates for UK-traded shares – i.e. shares in UK-incorporated companies that are admitted to trading on a UK regulated market, such as the LSE's Main Market, or a SME Growth Market in the UK, such as AIM. The Government has accepted DEMAT's recommendations and will legislate accordingly.

The removal of paper share certificates is the main element of Step 1 in a three-step journey that will end with all UK-traded shares being held in CREST, or another central securities depositary (CSD), via intermediaries (an intermediated model). Step 1 is expected to be implemented by the end of 2027, at the same as reforms to the stamp duty and SDRT regime (see below right). The Government aims to start Step 3 by the end of the current Parliament - i.e. by July 2029 - although completion of the timetable for Step 3 will depend on various factors, including the Government's legislative programme.

Digitising UK-traded shares was one of the recommendations of the UK Secondary Capital Raising Review published in 2022. Essentially it is designed to improve the "plumbing" of UK capital markets, and bring the UK more into line with shareholding systems in other developed markets; and to make it easier, quicker and cheaper for individuals to hold and trade shares, which in turn should help foster a culture of equity ownership and boost UK stock markets. For companies, moving to a digitised model should save time and costs by reducing physical movements of paper and helping to facilitate electronic communications with, and payments to, investors.

Key measures to be implemented under Step 1 are summarised in the box top right. The DEMAT report also includes preliminary observations on issues that will need to be addressed between now and Step 3. More detail of the issues and recommended solutions for Steps 2 and 3 will be set out in a further DEMAT report to be published next year.

This briefing looks at the changes coming, the implications for in-scope companies and shareholders and steps they should take.

Key changes to be introduced by the end of 2027 (Step 1)

- Withdrawing paper share certificates, so that certificates will no longer be evidence of title. Formerly certificated (non-CREST) shareholders will continue to be recorded directly on their company's register of members, but ownership of title will be solely evidenced by the electronic record on the digital register.
- Modernising share transfer requirements to allow share transfers and related processes to be carried out digitally, including through the use of electronic signatures on stock transfer forms.
- Developing operational standards for digital registers, including security protocols to guard against fraudulent or unauthorised transfers.

The changes will be preceded by a public awareness campaign that will explain the reforms to shareholders and other market participants.

Stamp duty regime: changes to be made in 2027

Earlier this month the Government announced details of plans to replace stamp duty and stamp duty reserve tax (SDRT) with a new Securities Transfer Tax (STT). The changes will be made in 2027, although the exact date has not yet been announced. As now, it will not be lawful to register the transfer of a share in a UK-incorporated company until the relevant STT has been paid, unless an exemption applies; however, the introduction of an online portal to digitise the reporting and payment of STT should make it quicker to get transfers registered. (For further details of the proposed changes see this blogpost.)

Current system for holding shares in UK-traded companies

Currently, investors in a UK-traded company can hold their shares either directly – meaning that they hold legal title to the shares in their own name – or indirectly – meaning that legal title to the shares is held by a nominee, and the investor owns a beneficial interest via the nominee and, sometimes, via one or more other intermediaries. Most individuals already hold shares via a broker, investment platform or other intermediary, in which case it will usually be the intermediary, or its nominee, that holds the legal title to the investor's shares – although some investors may not realise this. If the investor wants to exercise voting or other rights attached to their shares – for example, in a corporate action – they must ask the intermediary to do so itself or authorise the investor to exercise the rights. If there are multiple intermediaries in the chain, each must ask the next to comply with the investor's request. Whether an intermediary will comply with such a request, and who bears any associated costs, will depend on the terms and conditions agreed at each stage of the chain.

The vast majority of shares in UK-traded companies are held by institutions via CREST, which is the UK's CSD. Euroclear, which operates CREST, maintains a register of investors who hold shares via CREST (technically known as the operator register). Some institutions hold shares in CREST directly; others hold via intermediaries.

A minority of shares in UK-traded companies are held outside CREST, many by individual investors. Larger companies, especially those that were privatised, sometimes have hundreds, or even thousands, of individual investors on their register. Although individual investors tend to hold relatively small numbers of shares, their value can be significant to the individual. A company will employ a firm of registrars to maintain the register of non-CREST investors, which is technically known as the issuer register. Together, the CREST (operator) register and issuer register give a complete picture of a company's shareholders. Non-CREST investors who hold in their own name are issued with a share certificate, and are therefore sometimes referred to as "certificated holders"; however, as share certificates will be removed, in this briefing we refer to them as non-CREST investors. (We use "investor" to mean a person who owns shares, whether directly or indirectly.)

In response to the development of distributed ledger technology (DLT) and other commercial and technological developments, the UK Government is also exploring ways to tokenise shares and other securities. For the time being, this work will continue separately from plans to digitise shares, but the two projects may become more integrated at a later stage.

Towards an intermediated model

The Digitisation Taskforce recommended that the UK should move to a fully intermediated system of shareholding via a three-step process:

Step	Key features
Step 1	Existing paper share certificates will cease to have any legal significance. Companies will no longer be required to issue a share certificate when shares are issued or transferred, regardless of any provisions in their articles. Evidence of title will be via entry of the holder's name in a digital share register maintained by the company's registrars (a digital register model). A holder will be able to access their holding via a web portal or app provided by the company's registrars, from where they will be able to download a Digital Holding Confirmation (DHC) giving details of the shares they hold. But a DHC will not be evidence of title. The digital register model is similar to the system currently operated for non-CREST shares, but it will have specific security features to guard against fraudulent or unauthorised transfers. Step 1 will operate alongside the existing CREST system and is designed to be a temporary "pit stop" on the road to the end-state, Step 3.
Step 2	Improvements should be made to the intermediated system, particularly to make it easier for ultimate beneficial owners (UBOs) to exercise the voting rights attached to their shares, if they wish to; and to speed up and streamline the process for transferring payments from the issuer to UBOs and for passing information up and down the intermediated chain. Broadly the aim will be to enable investors to enjoy equivalent rights to those they currently enjoy while they hold shares directly. Non-CREST shareholders will be encouraged to transfer their shares into the name of their chosen broker, investment platform or other intermediary before Step 3 occurs.

Step	Key features
Step 3	All UK-traded shares will be moved to the improved intermediated model. Shares will be issued in fully digital form and be held and settled through CREST or another CSD. Individual investors will hold their shares via one or more intermediaries. Shares which, by a sunset date yet to be specified, have not already been transferred into the intermediated model – for example, because the holder has lost touch with their shares, or is unable to find an intermediary to take them on as a client – are likely to be forcibly transferred to a "default" intermediary, which may be a Government-sponsored nominee, and then held on trust or sold. Steps may also be taken to "force" investors to provide companies with an email address and bank account details, by allowing companies to stop sending them communications, and to withhold dividends, until they do so. Company law may be updated to make all communications from companies to investors, and all dividends and other corporate payments, electronic by default.

What will happen next?

Below is a summary of the key steps expected over the next few years:

Timing	Development
Summer 2026	Government to publish a draft **Statutory Instrument** that will amend the Companies Act 2006 (CA 2006), the Uncertificated Securities Regulations 2001, the Stock Transfer Act 1963 and other legislation (see box below).
H2 2026	DEMAT group to contact lenders to establish how common it is for **certificated shares to be used as collateral in lending transactions** and, if such practice is sufficiently common, to develop a solution that will enable a lender, in an enforcement scenario, to get title to the shares transferred into its name without needing to obtain authorisation or consent from the borrower.
H2 2026 to late 2027	• Government-sponsored **awareness campaign**, aimed at non-CREST shareholders. • Registrars, issuers and other interested parties to develop "**Step 1 Operational Standards**" for the operation of digital registers, including security protocols and how corporate actions will be dealt with. These operational standards are expected to be published around summer 2027 and be endorsed by the Government. • **Takeover Panel and receiving agents** to develop protocols and, if necessary, amend the Takeover Code – e.g. the Receiving Agent's Code of Practice in Appendix 4 – to ensure that a non-CREST shareholder cannot accept two different contractual offers. • GC 100 expected to convene an industry working group to develop **model wording for companies that choose to amend their articles**, and associated guidance. • FCA may publish further guidance and/or rules to **encourage UK intermediaries to improve the services they offer** to investor clients. • DEMAT group to work on issues that need to be resolved for Step 3 to work properly, including: - companies that have **shares held in the DTC** as part of US listing arrangements - the **forcible transfer** of shares to an intermediary on the sunset date - shares held by untraceable investors via a **Corporate Sponsored Nominee (CSN)** - whether to remove or amend **the headcount test for schemes of arrangement**, once all shares are held via intermediaries (where they may be held in pooled omnibus accounts)

Timing	Development
	- administrative steps to be taken on **corporate actions** - whether to update the regime in **section 793** CA 2006 for investigating interests in a company’s shares.
2027	**DEMAT to publish a further report** setting out a roadmap for improving the intermediated securities system (Step 2) and for moving all shareholders in the UK on to it (Step 3).
Late 2027, date to be announced soon	**Step 1 completes:** Statutory Instrument comes into force; share certificates cease to have legal significance; title to non-CREST shares is recorded on digital share registers. In choosing the effective date, the Government will aim to avoid coinciding with or occurring in close proximity to the implementation of T+1 accelerated settlement in the UK on Monday 11 October 2027; peak periods for corporate actions, such as the AGM season (typically April to June for calendar year end issuers); and common dividend payment dates.
2026 to 2029	Improvements to be made to the intermediated system.
By July 2029	Start of process to move all UK-traded shares to the improved intermediated model.

Step 1: Statutory Instrument to change current legislation

A Statutory Instrument will deal with various issues. In particular, it is expected to:

Withdrawal of paper share certificates

- Amend section 768 CA 2006 so that, for UK-traded shares, a certificate will no longer be evidence of title.
- Clarify that ownership of UK-traded shares is evidenced by the digital register.
- Disapply the requirements in sections 769 and 776 CA 2006 for a company to issue a new share certificate following an allotment or transfer of UK-traded shares.

Transfers of shares

- Amend the Stock Transfer Act 1963 to clarify that stock transfer forms can be signed electronically.
- Amend section 770 CA 2006, which currently requires a “proper instrument of transfer” to be delivered to the issuer, to accommodate electronic transfer instructions.
- Permit issuers and registrars on their behalf to refuse to register a transfer of shares on the digital register where the issuer or registrar is unable to verify the identity or authority of the person submitting the transfer instructions.
- Make technical amendments to the Uncertificated Securities Regulations 2001, which govern the operation of CREST.

Contrary provisions in articles to be overridden

- In relation to UK-traded shares, override any provisions in a company’s articles, resolutions or the terms of any share issue that are inconsistent with the above.

What do UK-traded companies need to do?

All UK-traded companies should:

- Engage with their registrars to understand how the proposed changes will affect the arrangements for keeping their non-CREST register; what changes may need to be made to the registrars' terms of engagement; and what protocols the registrars plan to put in place to deal with transfers and corporate actions.
- Consider whether to send communications to their non-CREST shareholders to explain what is happening and, perhaps, to encourage them to move their shares to an intermediary and provide bank details and electronic contact details to facilitate dividends and electronic communications. Such communications could, for example, be sent alongside information about the company's 2027 AGM.
- Consider whether to update their articles to reflect the changes in legislation expected to be made next year.

Companies with an **overseas branch register** should engage with their UK registrars and (if different) their overseas registrars or transfer agents to understand whether any changes need to be made to their current arrangements in response to Step 1 (and, in due course, Step 3).

Companies with **Reg S, Category 3 shares** should talk to their registrars and US counsel about how to ensure that, during the applicable distribution compliance period, investors who hold outside CREST continue to be alerted to transfer restrictions applicable to the shares when, at Step 1, share certificates no longer have any legal significance and title becomes evidenced via the digital register.

Companies with **shares held in the DTC as part of US listing arrangements** should engage with their registrars, the DEMAT group and/or any working group that is established to understand how Step 3 would affect their current arrangements and help design and implement any solutions needed.

What do existing non-CREST shareholders need to do?

Non-CREST shareholders do not need to do anything in preparation for Step 1, when their rights will be unaffected. They will not be required to surrender their existing share certificates. The withdrawal of paper certificates and digitisation of the share register, and movements between the digital register and CREST, will not trigger any stamp duty or SDRT charges, provided that such movements do not form part of a transfer on sale or otherwise for consideration but merely result in ownership being recorded by a different means.

However, non-CREST shareholders should:

- Familiarise themselves with the new arrangements for accessing their holding on the digital register – which is likely to be via an app or web platform provided by the company's registrars – and for transferring shares – which in most instances will involve submitting a transfer instruction via the app or web platform.
- Consider moving their shares to an intermediary of their choice.

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