

# Consultation Paper on a Proposal to Improve Efficiency for Investors and Streamline the Settlement of Irish Securities

Consultation Deadline: Friday 21st October, 2005  
Dematerialisation Implementation Group



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## Consultation Paper on a Proposal to Improve Efficiency for Investors and Streamline the Settlement of Irish Securities

This consultation paper sets out the proposal of the Irish Dematerialisation Implementation Group for the *Dematerialisation* of Irish equities admitted to trading on a regulated market (including an Exchange regulated market, such as IEX and AIM) and of some other Irish registered *CREST* settleable securities ("relevant Irish securities").

The Dematerialisation Implementation Group ("the Group") was set up in January 2005 and is a market wide Implementation Group comprising representatives of all relevant securities market constituencies, regulatory and governmental authorities. The Group is chaired by the Irish Stock Exchange. Its sole object is to facilitate the increased efficiency of the Irish securities market by the dematerialisation of all Irish equities admitted to trading on a regulated market (including an Exchange regulated market, such as IEX and AIM) and of some other Irish registered *CREST* settleable securities. Dematerialisation means the provision of an improved and more efficient way for investors to trade relevant Irish securities by the removal of share certificates and the *CREST Transfer Form* from the issuance, securities trading and post trade processing cycles. It is proposed that they will be replaced by a paper *Shareholder Statement* and *Shareholder Reference Number (SRN)* accompanied possibly also by a *PIN*.

A Glossary is provided at Appendix I to this document, which explains the terms which are *bolded and italicised* when first used in the document.

The members of the Group are set out in Appendix III.

Please provide your feedback on this paper to [dematconsultation@ise.ie](mailto:dematconsultation@ise.ie) by 21st October, 2005. Please note that answers to Frequently Asked Questions on this dematerialisation proposal can be accessed on the ISE website at [www.ise.ie](http://www.ise.ie) in the Exchange News section of the site.

# Dematerialisation Implementation Group

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# A Executive Summary

The **Settlement** of transactions in Irish securities is not operating at an optimal level of efficiency or cost-effectiveness for investors or **CREST Participants**, due to the significant numbers of share certificates held by **Shareholders** in Irish companies. The processing and administration of a share certificated transaction requires a much greater investment of time and resources compared to a similar electronically settled transaction, with an associated higher cost. The efficient and cost effective settlement of securities transactions is key to a world class, competitive Irish securities market. To that end, the Dematerialisation Implementation Group believes that the Irish market should move away from share certificates and the associated CREST Transfer Form and instead move to a fully dematerialised environment. In such an environment, all shares will be held, and settled, electronically, while retaining each shareholder's option to hold shares in his/her own name on a **Share Register** outside of the CREST Settlement system.

Securities markets worldwide are undergoing significant changes to the manner in which transactions are processed. Consolidation among participants in securities markets by (i) market operators such as stock exchanges, (ii) clearing and settlement providers and (iii) securities traders, gives an even greater impetus to this drive to deliver more efficient and harmonised processing of securities transactions. The most recent significant announcement indicating this pressure to adapt to changing circumstances and market demands is the NYSE's strategic decision to move from their signature open outcry dealing system to an electronic trading model. If implemented in full, this will have a revolutionary impact on the world's largest equity market.

In Europe, the European Commission's Financial Services Action Plan (FSAP) is the legislative backdrop to a considerable amount of change fundamentally impacting the operation of securities markets. One of the core themes of the next phase of the European Commission's policy drive is clearing and settlement.

In order to prosper in this changing global environment, markets need to continuously critically assess and develop their offerings to ensure that they are meeting the demands of their customers.

## Harmonisation of Settlement

Both Irish and UK equities are settled in the CREST system while Irish Government bonds are settled in Euroclear Bank's system in Brussels. Many Irish financial institutions use both systems. The merger of CRESTCo and Euroclear Group plc has created Europe's largest settlement services provider, operating under the **Euroclear** brand name. The first major market initiative undertaken after the merger of Euroclear and CRESTCo was a project to harmonise settlement practices across the five markets using their systems; UK, France, Netherlands, Belgium and Ireland. At the request of the Irish Stock Exchange, an Irish Market Advisory Committee (MAC) was set up by Euroclear. The MAC is recognised within the corporate governance structure of Euroclear and is a market user forum with the principal purpose of monitoring developments, identifying settlement and post-trade processing issues concerning the Irish equity and government bond markets and then representing and pursuing these at group level in Euroclear.

As part of this harmonisation process, Euroclear is well progressed in the development of a "**Single Settlement Engine**" upon a "**Single Platform**" for the five national markets which it serves. These other markets are either already dematerialised or are currently engaged in a process to implement dematerialisation. This reflects a realisation that a system using share certificates has become outdated and inefficient compared with a fully electronic system.

If the other four countries were to implement fully dematerialised systems and Ireland did not, a Paper Handling Mechanism (which is a process whereby share certificates and CREST Transfer Forms are deposited with relevant documentation in order to be dematerialised into electronic form for the purpose of effecting a transfer of shares), even if Euroclear agreed to retain it solely for Irish securities, would be unduly expensive to maintain and to operate on an ongoing basis and would undoubtedly be a financial disadvantage to the Irish market in the future.

**An extensive consultation carried out by the Irish Stock Exchange in late 2004 with domestic and foreign participants in the Irish market established that the consensus is that dematerialisation should be pursued as a matter of priority for the Irish equity market.** Because many Irish equities are listed on both the Irish and UK markets, it is desirable from an Irish perspective that dematerialisation is implemented in as similar a manner as possible in both markets. The Irish market generally is keen to ensure that Ireland responds appropriately and immediately so that the Irish market is in line with best international practice; failure to progress this issue will be a competitive disadvantage to the Irish market in an increasingly harmonised European securities market. The benefits of dematerialisation would be directly experienced by both retail and professional investors in the Irish equity market.

## Next Steps

One of the main challenges for the Irish market, identified by comparative analysis performed against other well developed capital markets, is the growing need for the Irish equities market to dematerialise, by means of (i) the removal of share certificates and ceasing use of the CREST Transfer Form and (ii) replacing both with a paper Shareholder Statement and Shareholder Reference Number (SRN) (possibly with the addition of an optional PIN). Dematerialisation has now become a benchmark for the most efficient and successful capital markets worldwide. **It is important to emphasise that the proposal to dematerialise all shareholdings will not disenfranchise shareholders in any way. Shareholders who currently hold certificated shares will retain their current rights - the only difference being that they will receive a detailed statement of their shareholdings rather than a share certificate.**

The Group is of the opinion that if the necessary support from Government for legislative change can be secured, dematerialisation can be introduced with relative ease. As outlined further in Section G, "Implementation: Next Steps", the advice received by the Irish Stock Exchange indicates that there is no requirement to make major legislative changes to implement dematerialisation. It is hoped that the Minister for Enterprise, Trade and Employment

should be able to amend or replace the current 1996 Uncertificated Securities Regulations to effect much of the necessary changes to introduce full dematerialisation of relevant Irish securities by utilising Ministerial powers under Section 239 (3)(c) of the 1990 Act. The DETE will advise on this specific legal issue in due course.

Professional market participants are very supportive of this development and depending on the complexity of the final solution that will be agreed on, the Group believes that it should be possible to implement dematerialisation within a year from the end of the consultation period.

## Content of this Consultation Paper

The remaining sections of this paper deal with the following topics:

Dematerialisation in the International Context  
Section B

Why Irish Securities must Dematerialise  
Section C

How Irish Securities Settle Today  
Section D

Proposal for the Dematerialisation of Irish Securities  
Section E

Analysis of Security Issues  
Section F

Implementation: Next Steps  
Section G

A glossary of terms used throughout this paper is included in Appendix I.

Matters related to *Corporate Actions* are covered in Section E, with additional detail in Appendix II.

The membership of the Dematerialisation Implementation Group is set out in Appendix III.



# B

## Dematerialisation in the International Context

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One of the main policy themes in the securities markets of the European Union and the US is a preference for the complete dematerialisation of securities with the eventual removal of the option to obtain share certificates.

In Europe, one of the key objectives of the Financial Services Action Plan is to establish a single capital market for Europe. A key part of that move requires significant changes to clearing and settlement systems, which will involve greater dematerialisation of securities. Various bodies have been set up by the EU to report on the integration of the securities infrastructure in the European Union. A joint working group, which was set up including representatives from CESR (the Committee of European Securities Regulators) and the European Central Bank, issued a joint Consultative Report entitled "Standards for Securities Clearing and Settlement Systems in the European Union" in July 2003 as part of the drive to a fully integrated clearing and settlement system in Europe. Standard 6 of this report states that "**Securities should be immobilised or dematerialised and transferred by book entry in CSDs to the greatest extent possible**". The standard also states that the method of ownership of the ultimate owner varies but the costs and risks associated with owning and trading securities may be reduced considerably through **Immobilisation** of physical securities in a depository system or by proceeding to full dematerialisation.

An immobilised settlement system is a system where one initial share certificate is issued which is then held at a depository with all records of initial beneficial ownership and subsequent changes recorded in electronic media rather than on share certificates.

The Group of Thirty (G-30), established in 1978, is a highly respected international body, which undertakes studies on international economic and financial issues. The G-30 issued a report in January 2003 entitled "Global Clearing and Settlement: A Plan of Action" which included twenty recommendations. The scope of this report was very broad as it covered different types of organisations and included the US, European, and Asian markets. The G-30's first recommendation was to "**eliminate paper and automate communication, data**

**capture and enrichment**" and in that recommendation they stated that the goal should be the elimination of the issuance, use, transfer and retention of paper securities certificates without delay.

The experience of markets which have moved to full dematerialisation has been positive. Share certificates are for example no longer issued for any listed securities in New Zealand, which has been dematerialised since 1999. It has been reported that there has been no single case of securities fraud in New Zealand since the implementation of dematerialisation. Likewise, Australia has been fully dematerialised since 1998 and has also experienced investor benefits and efficiencies. Other markets such as Canada and Hong Kong have also committed to moving to a dematerialised market, while some developing countries' markets, for example India, have also fully dematerialised.

Dematerialisation has either been implemented already in other EU jurisdictions or is currently being addressed. The type of settlement used by the following European countries for securities, which are traded on a market, is outlined below.

Country	Type of Settlement
Belgium	Mostly immobilised, some share certificates, moving to full dematerialisation
Denmark	Fully dematerialised since 1988
Finland	Dematerialised
France	Dematerialised since 1984
Germany	Immobilised
Italy	Dematerialised since 1999
Netherlands	Not fully dematerialised but significant drop in use of share certificates, moving to dematerialisation
Portugal	Share certificates are still used but considering moving to dematerialisation
Spain	Mostly dematerialised or immobilised with some share certificates
Sweden	Dematerialised since 1989

The US also has seen a sharp reduction in the number of share certificates being requested and being held by the Depository Trust Company in recent years. The majority of shares in the US are registered electronically in the shareholder's name. This electronic registration of title is referred to as "Book Entry Only" and the settlement system is an immobilised system rather than a fully dematerialised system. There is still the option in the US to obtain share certificates but the percentage of investors requesting share certificates has dropped sharply in recent years. Certain companies such as AT&T, which has one of the largest shareholder bases in the US, have already made the decision to issue only completely dematerialised securities. The industry and regulators are engaged in detailed discussions about a move to full dematerialisation and a related longer term move to settlement on "T+1" (the day after trade date).

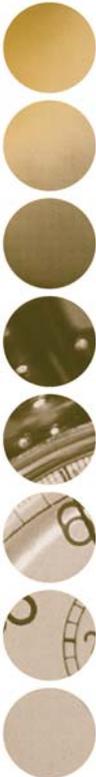
The most recent significant announcement from the US securities market is the NYSE's decision to move from their open outcry dealing system to an electronic trading model. If implemented in full, this will have a revolutionary impact on their business processes and is likely to add further impetus to the US dematerialisation initiative.

The UK market is also actively progressing an initiative to remove paper from the system and is working with the government to deliver mandatory dematerialisation. A report entitled "Better, Quicker and More Efficient Investment Arrangements for the Individual Investor", issued in December, 2004 specifically dealing with dematerialisation, was issued by a broad array of UK market participants. The UK Dematerialisation Working Group is hopeful that legislative changes will be incorporated in the UK's 2005 Company Law Reform Bill.

Even in the Irish context certain other securities have already dematerialised. Irish Government bonds and the ISEQ<sup>®</sup>20 Exchange Traded Fund, which was recently issued on the Irish Stock Exchange, are already dematerialised but for Irish equities it is still possible to obtain share certificates. Irish Government bonds are traded on the Irish Stock Exchange and the five benchmark bonds are also traded on the EuroMTS and MTS Ireland trading platforms. All Irish Government bonds are cleared and settled in the Euroclear system since December

2000. Share certificates are not provided for new bond issues, and the change of ownership is transferred electronically.

The consensus established from a consultation carried out by the Irish Stock Exchange in 2004 with domestic and foreign participants in the Irish market is that dematerialisation should be pursued as a matter of priority by the Irish equity market. Due to the nature of the Irish market and its close relationship with the UK market, it is desirable that dematerialisation is implemented in as similar a manner as possible in both markets. It is in the best interests of the Irish securities market to ensure that the strategy adopted by Ireland remains in line with best international practice. Failure to progress this issue will disadvantage Irish investors and will be a serious competitive disadvantage to the Irish market.



# C Why Irish Securities must Dematerialise

The removal of share certificates from the Irish equity market is a strategic imperative for the Irish market in order to meet the best practice benchmarks of the global market.

The Irish market needs to dematerialise in order to:

- Facilitate ease and speed of trading by investors,
- Enhance the international competitiveness of Ireland for securities trading,
- Reduce the current costs associated with the cumbersome process of managing paper-based transactions,
- Avoid the risk of the escalation of the current settlement costs for Irish certificated transactions, which would occur if there was a successful implementation of dematerialisation of UK securities with share certificates still remaining for Irish securities. In this scenario:
  - the settlement costs for transactions in Irish securities would certainly escalate as it would be necessary for Euroclear to maintain a minimum level of infrastructure such as the requirement to maintain a paper handling mechanism (currently operated by the *CREST Courier and Sorting Service (CCSS)* offices) in the UK and Ireland purely for the depositing of share certificates for Irish securities by Irish and UK brokers for settlement purposes,
  - it would also be more costly for Euroclear to maintain divergent settlement systems for both the Irish and UK markets,
  - as these costs to process share certificates, most of which are fixed costs, would no longer be levied on the UK market, the Irish market would be charged significantly more to settle certificated securities,
  - CREST participants will also incur additional operational costs in managing two different settlement processes for both UK and Irish securities,
- Reduce the risks of fraud from misplaced and stolen share certificates,
- Render possible a move to "T+1" settlement for all equity trades, and to

- Facilitate the development of e-commerce and the paperless economy, which is consistent with Government policy set out in "Implementing the Information Society in Ireland" in January 1999.

This paper outlines the current situation and its deficiencies and provides a description of the proposed new system. This paper also raises questions on which the Group would appreciate feedback from interested investors and other market participants.

# D How Irish Securities Settle Today

## Uncertificated Transactions

With the implementation of the CREST settlement system in 1996, Irish listed companies dematerialised part of their registers to allow for electronic settlement in the CREST system. Currently, only entities with CREST membership are able to hold shares directly in dematerialised form.

*Nominee Companies*, which are separate limited companies, are used in all markets, including Ireland and the UK to hold client shares either in certificated or electronic form. It is particularly useful for protecting client holdings in electronic settlement systems, and provides slightly enhanced investor protection compared to mere intermediated holdings where the intermediary is not a limited purpose company, e.g. an entity undertaking many functions may incur risks other than pure securities holdings for clients. Legal ownership on the share register is in the name of the CREST participant's Nominee Company with the shareholder having beneficial ownership of the shares. The shares are often held in a "pooled" Nominee Account where there is one account to hold all securities for all clients of the CREST participant. Shares may also be held in a designated account for each client, which is a slightly more expensive option. The Nominee service facilitates simplified dealings by clients as there is no need to handle share certificates. Most nominee companies charge a fee for this service.

CRESTCo offers a service called a "*CREST Personal Membership Account*" where shareholders may hold their shares electronically in their own name on the share register rather than in the name of the CREST participant's Nominee Company. However, shareholders have to communicate with CREST through a sponsor as they most often will not have the technological means to do so directly. This service is not provided by all CREST participants and it generally entails a cost for the shareholder.



## Certificated Transactions

A schematic showing the current certificated situation is outlined below:

### The Current Situation



Whole process can take up to 3 weeks

- CCSS:** The CREST Courier and Sorting Service, which are the offices operated by CRESTCo, or its agents, to which share certificates and the related CREST Transfer Forms necessary to process the certificated transactions are delivered.
- Deposit Sets:** Each CREST Transfer Form, together with any documents, such as share certificates relating to and submitted with such form comprises a Deposit Set.
- EDC:** *Electronic Data Capture*, which is where the stockbroker inputs details of the transfer and share certificate into the CREST system and issues a Stock Deposit Reference Number (SDRN).
- SDRN:** *Stock Deposit Reference Number*, which is the number issued by the stockbroker on inputting details of the transfer and share certificate into the CREST system. The number and type of characters included in the SDRN must comply with CRESTCo guidelines.
- STW:** *Stock Withdrawal*, which is the CREST instruction used to effect a withdrawal of securities from CREST into certificated form.

When certificated shareholders wish to sell shares they will contact their stockbroker. Shareholders with certificated holdings encounter a more difficult and cumbersome dealing process than shareholders who hold their shares electronically. In order to reduce the risk of selling shares without any security, stockbrokers will typically be unwilling to sell shares on behalf of shareholders until the relevant share certificate(s) along with a signed CREST Transfer Form(s) have been delivered to the stockbrokers' offices. This can disadvantage certificated

shareholders as it can take several days for post to be delivered. By the time the share certificate(s) and signed CREST Transfer Form(s) arrive at the stockbrokers' offices, the share price may have taken a downturn and the selling client may have missed the chance of selling at a higher price.

On receipt of the share certificate and signed CREST Transfer Form, the selling stockbroker executes the trade and sends a **Contract Note** to the shareholder. The selling stockbroker then inputs the details of the

transfer and share certificate into the CREST system and issues a Stock Deposit Reference Number (SDRN), which is bar-coded on the CREST Transfer Form. This process is known as an Electronic Data Capture (EDC). The selling stockbroker then sends the Deposit Set (CREST Transfer form and share certificate) to the CREST Courier and Sorting Service (CCSS) in Dublin (or if the stockbroker is based in the UK to the nearest CCSS office in the UK).

On receipt of the Deposit Set the CCSS swipes the bar-coded SDRN and activates the EDC in CREST which allows the Registrar to pull down the transaction and view it on their registration system. The Registrar receives the Deposit Set the next morning by 9am and has 27 hours to reject the transfer or register it into the stockbroker's Nominee Company name. Once the shares are in the selling stockbroker's Nominee Account, settlement occurs in the CREST system on settlement day and the shares are transferred to the buying stockbroker and then notified to the Registrar, by means of a *Register Update Request (RUR)*, triggering the movement on the share register. The Registrar must respond to an RUR within two hours.

The buying stockbroker can now transfer the shares into the buyer's name by way of a Stock Withdrawal (STW) instruction. The Registrar must act on a STW within two hours.

The Registrar then produces the new share certificate and sends it to the buying stockbroker through the CCSS for onward transmission to the new shareholder.

## The disadvantages of the current process are the:

- Costs inherent in settlement of certificated shares are significantly higher than the costs of settlement of transactions in dematerialised form. Most of these costs are ultimately borne by the investor,
- Greater risk of a decrease in the share price prior to a sale being effected as stockbrokers will require receipt of the necessary documentation before placing an order to sell,
- Need for a paper handling mechanism (currently the CCSS) purely to facilitate the movement of paper and hence there would not be any requirement for this service, with its associated costs if securities were completely dematerialised. **If (i) the UK market were to dematerialise and the Irish market did not or if (ii) the UK market were to dematerialise before the Irish market, it would be necessary for Euroclear to maintain a mechanism in both Ireland and the UK to facilitate the settlement of certificated Irish securities. The cost of this would be borne predominantly by certificated shareholders of Irish securities,**
- Greater risk of fraud/misappropriation in the use of share certificates,
- Risk of lost share certificates and complications arising through invalid share certificates,
- High cost of indemnities to replace lost share certificates and the difficulties/costs in obtaining insurance for lost share certificates,
- Longer settlement period for certificated transactions, delaying receipt of shares/ cash by buyer/seller respectively. Often the typical settlement period is "T+10" rather than the now standard "T+3" for dematerialised transactions, and
- Risk of backlogs developing in processing of share certificates in periods of unusually high dealing volumes.



## 1. How relevant Irish Securities will Settle in Dematerialised form

Currently certificated shareholders' names appear on the share register and they are the legal owners of their shareholding. This legal position will not change in any way due to dematerialisation of the certificated shareholdings on the share register. The proposal going forward only intends to remove share certificates and the use of CREST Transfer Forms from the system and the shareholders who hold certificated shares will remain on the register in the same way as they are at the moment. It is important to understand that:

- **shareholders will retain the current rights that they enjoy as legal owners of their shares, and**
- **information that is currently provided to shareholders whose names appear on the share register, such as annual reports and corporate action information as well as dividends will still be provided by the company directly to the shareholder.**

A paper record of holdings on the share register will, however, still be available as shareholders will receive paper statements of their shareholdings (shareholder statements). These shareholder statements will be prepared and distributed independently of the market intermediary or stockbroker which deals the shares on behalf of the investor. Shareholder statements will be prepared at the end of every day on which there is a transaction and will be issued to shareholders on the next business day. Shareholder statements are intended as a security measure for investors additional to the

current security procedures. In time, it is possible that shareholders may choose to receive shareholder statements via electronic means, provided they have registered their email address with the issuer's Registrar.

A shareholder statement will be issued for each line of security and these shareholder statements will include a Shareholder Reference Number (SRN) made up of a specified number of characters, which will be agreed between the Registrars and CRESTCo with the SRN being unique per shareholder and per company. Registrars will issue initial shareholder statements to shareholders prior to the commencement of the change in the industry to dematerialised format. Each Registrar will produce a similar shareholder statement, the exact format of which has yet to be agreed.

Some shareholders who currently hold shares electronically through a CREST participant will be able to move their holdings to their own name on the share register as they will continue to achieve short dated settlement while holding the shares electronically in their own name. This may suit many "execution only" clients, particularly those who do not trade very frequently. This will be possible only after the security in question has been dematerialised and after initial shareholder statements have been sent out by the Registrar.

In the event that a decision is made to implement a **Personal Identification Number (PIN)** system, each shareholder will also be issued with a PIN. Please refer to the Security section of this paper (Section F) for further discussion of the security aspects of this proposal.

The following is an example of the possible format for the shareholder statement:

Shareholder Statement						
ABC PLC						
(Incorporated in Ireland under the Companies Acts 1963 to 2005 with No. xxxxx)						
Shareholder Reference Number (SRN): Rxxxx						
John Doe 32 St Michael's Drive Mornington Co Cork						
ABC PLC Ordinary Shares of 70.25 each				Shareholder Statement as at close of business on 17/07/2005		
Date	Transaction Type	Transaction Reference	Counterparty ID	Shares Added	Shares Removed	Holding Balance
16/07/05	Balance Bif					5,000
17/07/05	Addition to holding	0505226/AAS	XXX Stockbrokers	5,000		10,000
17/07/05	Reduction of holding	0506226/AAS	YYY Stockbrokers		2,000	8,000

ABC PLC Registered in Ireland No. xxxxx Registered Office xxxx Lower Baggot Street, Dublin 2  
 Company Registrar: ShareServ Limited, x Shelbourne Row, Dublin 2 Shareholder Help Line: +353 1 629 xxxx  
 Website: www.shareserve.ie Email Inquiries to info@shareserve.ie

When shareholders' holdings in a company are reduced or increased they will receive an updated shareholder statement directly from the Registrar. The issuance of a shareholder statement is a key element of this proposal and is an improvement on the current security surrounding investors' shareholdings.

Shareholders' names will be retained on the share register, and full legal ownership and title will be retained so voting rights, the issuance of company reports and issue and receipt of dividends will remain unaffected.

For Irish securities, CRESTCo will adapt its systems to accept SRN references against *Stock Deposits* and eliminate the necessity for physical Deposit Sets and

Bar Codes for sales. Stock Withdrawals will be created for purchases without the expectation of a share certificate once they are settled and registered. CREST participants may access shareholder's data either through an enquiry facility via the secure CREST gateway using the *Graphical User Interface (GUI)* or directly through the Registrars' systems. The GUI is software currently used by CREST participants to obtain access to the CREST system primarily for the purposes of making enquiries as to the status of settlement of transactions. Development work would need to be carried out by CREST to enhance the GUI by adding this additional register enquiry functionality.

A schematic of the proposed new process is set out below.

## The Future Situation



STD: The electronic CREST instruction used to dematerialise investors' holdings, normally into the account of a CREST participant.

### (i) Process for Selling Shares

When shareholders wish to sell shares in a CREST eligible security they will contact their stockbroker, state how many shares they wish to sell and quote their SRN number(s). If PIN numbers are to be used (this is dealt with in more detail in Section F) the selling stockbroker will ask for certain characters of the PIN from the client. The stockbroker will verify the shareholder details and holding(s) and assuming the details are correct, the stockbroker will conduct the sale on the shareholder's behalf. The sale will trigger a message in CREST in the normal manner (*STD*) with the SRN attached by the selling stockbroker. The sold shares will then be registered in the selling stockbroker's nominee company name. The shareholder will receive a contract note from the stockbroker. In addition a shareholder statement reflecting the sale will be issued to the shareholder by the Registrar to the shareholder's registered address on the business day after the share movement takes place. The shareholder will be paid the proceeds of the sale on the *Intended Settlement Date (ISD)*, unless he/she instructs otherwise.

If shareholders sell part of their holding in a particular security, their shareholder statements will show the amount of shares sold and the balance of shares remaining.

### (ii) Process for Buying Shares

When shareholders wish to purchase shares in a CREST eligible security they will contact their stockbroker and state how many shares they wish to buy. The stockbroker conducts the purchase on the shareholder's behalf. The purchased shares will now be registered in the buying stockbroker's Nominee Company name. The shareholder will receive a contract note from the stockbroker and providing that the purchased shares have been paid for by the shareholder and delivered by the seller, the securities will be moved from the stockbroker's Nominee Company Name into the purchasing shareholder's name (*STW*) on the Intended Settlement Date (*ISD*). A shareholder statement of the holding reflecting the purchase will be issued to the shareholder by the Registrar on the next business day.

If the shareholder already has an existing holding in the same security, the new holding will be added to the existing account by the Registrar.

### (iii) Multiple SRN Numbers

Multiple SRN numbers will arise if the shareholder has different static data details on the Registrar's database for the same security (e.g. John D Murphy and John David Murphy). In these cases it will be necessary for the selling stockbroker to place a separate sale order for each SRN as it will not be possible to include multiple SRNs on the same CREST message. If the details of the sale order do not agree with the static data on the Share Register the Registrar will reject the transaction. Shareholders will be encouraged to consolidate their holdings, if they receive more than one shareholder statement for the same line of stock, by contacting the relevant Registrar. This will help to eliminate the risk of incurring more than one dealing charge.

### (iv) Change of Addresses

Registrars will have appropriate checks and balances in place but shareholders will continue to have a responsibility to advise Registrars of a change of address to ensure that notification of movements on their accounts are mailed to the correct address and to ensure that shareholders do not experience any delays in dealing.

### (v) Lost/mislaid SRNs

In the event shareholders forget or mislay their SRN, it will be necessary for them to contact the relevant Registrar directly to request a duplicate shareholder statement. It may be considered necessary to provide a new SRN to the shareholder rather than a duplicate and if so, the old SRN will not be accepted by the Registrar for the purposes of dealing these particular shares. Shareholders will need to wait until they receive the duplicate shareholder statement with the SRN before they can sell their shares, which will result in a delay in placing their order. Therefore, shareholders will need to be aware of the importance of retaining their shareholder statements

in a safe place. Registrars have indicated that shareholders will be charged an administrative fee for the provision of a duplicate shareholder statement.

### (vi) Joint Accounts

One SRN will be issued for a joint shareholding account. As currently is the case, stockbrokers will require confirmation from all parties to a joint account prior to selling the shares. In the event that a joint holding has two different addresses, the shareholder statement will be issued to the first named shareholder.

## 2. Advantages of new system

- No change to legal status of shareholder,
- Facilitates ease of trading by investors by telephone or internet,
- No cost to shareholders for holding shares in dematerialised form in own name on the share register,
- Shareholder will continue to receive all information and dividends directly from company/Registrar,
- Additional security for investors due to Registrar provision of an end of day statement of shareholder's account on **each** day on which there has been any transaction or movement,
- Shareholders will still retain paper record of holdings as share certificates are replaced by Registrar issued statement of holdings. Shareholder statements will facilitate record keeping by shareholders,
- The CREST member will remain responsible for ensuring the validity of the transfer effected through the member on behalf of each shareholder,
- Removal of Indemnity Fee and associated insurance fee for lost share certificates, which can be significant for high value shareholdings,
- Lower operational costs for stockbrokers,
- Efficiencies in system should lead to lower

dealing costs for investors,

- Facilitates the integration of Ireland into an increasingly harmonised settlement infrastructure in Europe. Currently, cross-border settlement is expensive in Europe and is a deterrent to investing in other European securities. The intention is that this harmonisation should simplify and reduce the cost of investing in Irish securities by foreign shareholders,
- Facilitates a subsequent shortening of the settlement cycle,
- Removes risk of increased costs due to maintenance of a paper handling mechanism in the UK and Ireland, purely to facilitate settlement of certificated transactions in Irish securities as outlined above, and
- Facilitates the development of e-commerce and the paperless economy.

## 3. Corporate Actions

The Dematerialisation Implementation Group has considered how each type of corporate action would operate in a dematerialised environment. The table in Appendix II describes the current process for each.

The outline proposals for corporate actions are as follows:

### (i) Rights Issues

The current procedure of shareholders being sent **Provisional Allotment Letters (PALs)** would remain largely unchanged. Please refer to the Glossary for an explanation of a PAL. Shareholders may be sent a different type of advice, which will be considered in more detail after the completion of the consultation process. If shareholders wish to sell their rights, either nil or fully paid, they would proceed as for any other equity and quote the Rights' SRN when placing the order.

One question remains regarding trading in Fully Paid securities. During the course of a **Rights Issue**, there is normally a period between the subscription date and the rights ranking *pari passu* with the existing

Ordinary shares. This period typically lasts for two or three weeks. During this period, Irish Fully Paid rights can be purchased without the payment of Stamp Duty, although in reality very little Fully Paid trading occurs. Administratively it may be far simpler for industry participants if, at the end of the rights period, ordinary shares were immediately issued. This would save the Registrar having to issue an extra statement for the Fully Paid line as well as firms having to temporarily reflect the interim Fully Paid security on clients' portfolios as a separate security line. However, the Group is cognisant of the need to preserve existing advantages for investors.

#### (ii) Open Offers

An application form will be required to be completed as at present in order to accept settlement under an *Open Offer*. It may be necessary to change the Regulations to fully dematerialise open offers.

#### (iii) Capitalisations

No changes to the current situation except that shareholders would receive a shareholder statement showing the new security balance.

#### (iv) Takeovers

A paper acceptance form is still required under Irish law and this would be used as it is today. The acceptance form would contain a box in which to insert the SRN and this would be used as an alternative to enclosing the share certificate as is the requirement today.

However, in the case of takeovers with more than one bidder, a shareholder would be sent more than one acceptance form (one from each bidder). This could lead to confusion if shareholders completed and submitted more than one form. It would be difficult to establish which form is the legitimate acceptance. The Dematerialisation Implementation Group will take into consideration the views of consultees and will discuss this matter further with constituencies such as the Irish Takeover Panel and including contact with the UK Dematerialisation Working Group with a view to reaching an acceptable solution.

#### (v) Initial Public Offers (IPOs)

Any companies contemplating IPOs in the period leading up to the *Dematerialisation Date* would have to consider whether they would issue share certificates in the context of an imminent move to dematerialisation.

## 4. Transfers between Shareholders (Off-Market Transfers)

If shareholders wish to transfer their holdings to another party (e.g. as a gift), a *Stock Transfer Form* will still be used. It is proposed that this transfer form should be properly stamped and authorised by an approved agent. Such agents would typically be:-

- Stock Exchange member firms,
- Solicitors and
- Banks.

The request to transfer must be supported by a valid SRN.

### QUESTION 1

Do consultees consider that the format and content of the proposed new shareholder statement is acceptable?

### QUESTION 2

Should the CREST GUI be enhanced to provide secure access to share registers via the secure CREST gateway or should an alternative method via Registrars' websites be used so that stockbroking firms can have direct access? Please provide reasons for your answer.

### QUESTION 3

Do market participants see any need for an indemnity fee to re-issue lost SRNs to shareholders?

#### QUESTION 4

What is the consultees' opinion in relation to retaining the concept of Fully Paid trading or would consultees prefer nil paid securities to become parri passu with existing securities at the end of the rights period?

#### QUESTION 5

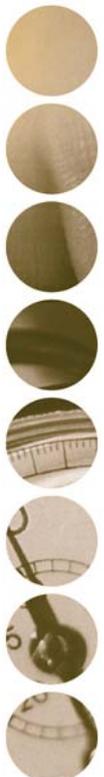
Do consultees have any views on the best way of dealing with takeover acceptances where there are multiple bidders?

#### QUESTION 6

Do consultees agree with the proposal for off-market transfers?

#### QUESTION 7

Do consultees have any views on potential issues arising in the area of corporate actions? Consultees may wish to refer to the schedule detailing the current process for various corporate actions, which is attached as Appendix II.



As with any implementation of a new electronic process in the financial or securities markets, the security aspect is critical. A key objective is that the proposed new system will be more secure than the present system.

## SRNs and PINs

The current proposal is for one Shareholder Reference Number to be provided to each shareholder on the share register of a company which would be included on shareholder statements sent to shareholders. Therefore, shareholders will have different SRNs in respect of shareholdings held by them in different companies. The Group discussed the possibility of providing new SRNs after every transaction for additional security purposes, but felt that this was costly and cumbersome for issuers/registrars and would result in confusion with clients being more likely to provide incorrect SRNs, thus delaying trades and was therefore rejected as an option.

The Group has carefully considered whether a PIN should be used in addition to the SRN. This would entail the Registrar issuing a PIN separately to shareholders as well as an SRN. The PIN could not be obtained by access to the share register by CREST participants and would only be known to the shareholder. If shareholders wanted to sell, they would provide the SRN to the selling stockbroker. The selling stockbroker would then ask for certain characters of the PIN from the shareholder which the selling stockbroker would verify electronically with the Registrar to ensure that the register details agreed with those provided. The PIN would not form part of the CREST Stock Deposit message (STD).

The Group is aware that the UK Dematerialisation Working Group's proposals include the adoption of a PIN in addition to the SRN. The Group understands that it is likely the PIN will be optional for CREST participants in the UK, with CREST participants who decide not to use the PIN relying on knowing their client. Therefore, the PIN will not be needed to facilitate transfers. Investors will be able to change their PIN.

After extensive consideration, the Group decided to consult with the market before reaching a final

decision on the use of a PIN. If a PIN system were to be introduced it would be optional, as in the UK, for stockbrokers to adopt in Ireland. One of the issues raised in the discussion of this matter was the additional costs to registrars/issuers of building a PIN system, which were felt by some participants to outweigh the benefits to be obtained by investors and market participants alike from the use of PINs. However, these costs should vary depending on whether the UK Registrars, some of which also operate Registrars in Ireland, will be developing their own systems to issue PINs in the UK. More information on the costs involved is required from Registrars and issuers prior to making a final decision in this matter.

The following points should be taken into consideration when ascertaining whether the SRN is sufficient by itself or whether a PIN is also required:

- There have been many instances of share fraud over the years, whereby duplicate share certificates were obtained without the shareholder's knowledge and then sold. The fraudster would sign the indemnity and CREST Transfer Form himself, pretending to be the registered shareholder. The shareholder may not notice for a while, perhaps until a dividend did not arrive or, if the holding was non-dividend paying, he/she might not notice for several years. The proposal for the Registrar to issue a statement to the shareholder after every movement on the shareholder's account, which will take place with or without a PIN system, is a significant improvement on the current situation as it will ensure that any unauthorised transactions will be brought to the shareholder's attention immediately.
- The selling CREST participant is liable for the operation of his connectivity to CREST and would therefore be responsible for making good any shortfall to a client if an unauthorised transaction occurred on his account through this secure connection to CREST. It will be the responsibility of the selling stockbroker to verify the identity of the selling shareholder and ensure the security used for the sold delivery belongs to that seller.
- It will also be possible for shareholders to obtain a new SRN at any time, if for instance they lose

their shareholder statement, which includes the SRN, or if they feel concerned that the SRN may have been compromised. The issuer/registrars will send a replacement shareholder statement with a new SRN. This is a new process, which will require development.

- If a PIN were to be used, the intention is that the Registrar would mail the shareholder's PIN separately to the shareholder statement (which includes details of the SRN). Both mailings would be sent directly to the shareholder's registered address. If a PIN was required in tandem with an SRN to place an order on the shareholder's account, this would enhance security for the shareholder as a potential fraudster would have to intercept both mailings to effect a transaction on the account.
- The use of a PIN number would give the shareholder a greater sense of security. Shareholders who place a single order to sell an entire shareholding in one company's shares and who are required to provide a PIN will benefit from additional security. However, a difficulty arises where stockbrokers' clients place several orders in the same security as by disclosing different digits of the PIN over several transactions, they will have effectively disclosed their PIN to the selling stockbroker. This removes the security from the PIN.
- If it is possible for investors to change their PIN if they feel it has been compromised, then shareholders who place several orders with the same stockbroker for the same security could enhance the security of the PIN by changing it as required. Systems development would be required to allow PINs to be changed by shareholders.
- Many retail shareholders are 'once off' holders who only have one or two holdings. These holdings may remain static for years before a sale is made. The likelihood of shareholders retaining PINs for a number of years is questionable. The shareholder may have to request a new PIN prior to placing an order if he/she was unable to locate the original PIN issued.
- Shareholders who have a significant number of securities would have to retain an equal number of SRNs and PINs; one for each holding. There could be much confusion if the shareholder

placed several orders and the selling stockbroker asked for parts of the PIN for each holding. The solution to this would be for all Registrars to provide shareholders with the ability to change their various PINs to one or more that can be retained by the shareholder.

- The risk of lost PINs. A selling stockbroker may not be willing to carry out a transaction without a PIN. Therefore, if a PIN were lost, the shareholder would need to apply for a duplicate and, until this is obtained, the sale could not take place. This could disadvantage the shareholder in the event that the security price falls in the interim. However, this is similar to currently losing a share certificate as the shareholder will also need to wait for a duplicate share certificate, with a significantly higher cost than is expected will arise in the proposed system.
- The administration costs of implementation of a PIN system for Registrars need to be identified as mentioned above.
- The fact that the UK intends providing a PIN to shareholders, the adoption of which will be optional for CREST participants in the UK, is an argument for the adoption of a PIN in the Irish market. It is preferable for operational and systems reasons for the Irish market to adopt as similar a system as possible to the UK market.
- The development of a PIN system has the advantage that it could be used by other e-commerce and internet developments in the future. Furthermore, shareholders are familiar with using the internet for other purposes and it could be possible to enable shareholders to easily change their PINs and request shareholder statements via the Registrars' websites as well as over the telephone.

#### QUESTION 8

Are consultees satisfied with the proposal that each company will issue an SRN to every shareholder on its register of members? Please provide reasons for your answer.

#### QUESTION 9

Do consultees consider that a PIN system should be developed? Please provide reasons for your answer.

# G Implementation: Next Steps

The Dematerialisation Implementation Group supports the implementation of dematerialisation in as short a timeframe as possible but as its implementation is dependent on matters outside of the control of the Group, we cannot give a definitive timeframe at this point except to state that we would expect that if legislative change were to be made that it should be possible to implement dematerialisation within a year from the end of the consultation period. Determination of an implementation date for dematerialisation is predicated on addressing the following:

- 1 Change in primary legislation or regulations,
- 2 Importance of Investor Education and Awareness
- 3 Software changes for Registrars, CREST Participants and the CREST System
- 4 Decision on "Big Bang", "Phased" or "Dual" Approach to Dematerialisation
- 5 Transitional Issues

## 1. Changes in Primary Legislation or Regulations

Section 239 of the Companies Act 1990 ("Section 239") provides that the Minister for Enterprise, Trade and Employment may make regulations to enable title to securities to be evidenced and transferred without a written instrument. The relevant Regulations permitting CREST members to transfer dematerialised securities are the Companies Act 1990 (Uncertificated Securities) Regulations 1996 (the "Regulations").

The legal opinion received by the Irish Stock Exchange indicates that there is no requirement to make major legislative changes to implement dematerialisation. It is hoped that the Minister should be able to amend or replace the current 1996 Uncertificated Securities Regulations to effect much of the necessary changes to introduce full dematerialisation of relevant Irish securities by utilising Ministerial powers under Section 239 (3)(c) of the 1990 Act. The DETE will advise on this specific legal issue in due course.

The relevant extract from Section 239 is as follows:

### 239

- 1 The Minister may make provision by regulations for enabling title to securities to be evidenced and transferred without a written instrument.
- 3 The regulations may make provision—
  - (a) for procedures for recording and transferring title to securities, and
  - (b) for the regulation of those procedures and the persons responsible for or involved in their operation, and
  - (c) for dispensing with the obligations of a company under section 86 of the Principal Act to issue share certificates and providing for alternative procedures.

Any revised regulations, must be laid before each House of the Oireachtas in accordance with Section 239(9).

The Group also believes that there should not be any requirement for shareholders to surrender share certificates to issuers. The Group proposes that share certificates should be deemed to be cancelled on the implementation of dematerialisation.

In some cases, issuers may also have to change their Articles of Association, although the Group does not envisage this being a necessity for most issuers as many companies whose shares are settleable through CREST would have previously amended their Articles to provide for the issuance of uncertificated holdings. The article adopted by most companies authorises the directors of the company to implement any arrangements they think fit and to disapply all or part of the Articles in order to give effect to any Regulations made pursuant to Section 239. There is of course no certainty that all companies have wide enough Articles and amendment may indeed be required unless the Regulations or legislative change includes a provision enabling dematerialisation to be implemented by superseding companies' Articles. **It is essential that any issuers who may require changes to be made to their Articles, respond to Question 12 below.**

The Group has written to the Department of Enterprise Trade and Employment setting out the legal advice received and seeking the implementation of dematerialisation. The Group understands that the legal position is under review by the Company Law Review Group.

## 2. Importance of Investor Education and Awareness

Prior to dematerialisation, shareholders will need to be made aware of the removal of share certificates and CREST Transfer Forms and the reasons for the change.

Various market participants will have to ensure that their clients are made aware of this change. This can be done by informing clients via various direct communications sent to clients as well as information on stockbroker and registrar websites, the Irish Stock Exchange website and on individual company websites. It may also be possible for individual companies to provide this information in their annual/interim reports or via an information sheet included with an earlier posting, such as with payment of dividends. The Group has drafted responses to Frequently Asked Questions which may be accessed from the Irish Stock Exchange website at [www.ise.ie](http://www.ise.ie) in the Exchange News section of the site with the consultation paper. These FAQs will be updated over the consultation period.

The Group is open to facilitating the production of further explanatory material on the new system. This would be made widely available to members of the public and would be downloadable from various industry websites.

It will also be necessary for market participants to ensure that relevant employees are also well informed of the changes and of the questions that may be asked by the public. It will be necessary to ensure that investors are provided with contact details for any questions which they may have.

The Group is also considering whether a separate help-line should be set up to respond to questions from shareholders for a period of several months prior to and after the implementation of dematerialisation.

## 3. Software changes for Registrars, CREST Participants and the CREST System

On reaching agreement on the final proposal for dematerialisation, sufficient time will need to be allowed for amendments to be made to CREST participants' and Registrars' systems as well as to the CREST system itself.

Many firms have *Straight Through Processing (STP)* order management systems that take orders, trade electronically with the counterparty and feed the resulting trade through to the Settlement System. This in turn creates the necessary CREST messages. To retain the benefits of the STP process, firms would need to develop their order management systems to capture the SRN as the order is entered.

For the Settlement Systems of CREST participants, the major change would be the necessity to remove the expectation of share certificate recording and tracking and replace it with a mechanism to record the SRN used for sales. If a PIN system is adopted, CREST will need to capture the SRN but not the PIN. Many systems will also automatically produce barcodes and deposit lists for sales so these functions will need to be made redundant.

Registrars will need to make software changes which will take six to eight months to implement. CRESTCo will also need to make changes to the CREST system.

A significant amount of testing will be necessary for all CREST participants.

## 4. Decision on "Big Bang", "Phased" or "Dual" Approach to Dematerialisation

It is intended that the enabling Ministerial regulations or amended primary legislation, which will need to be put in place, will set a specific final change-over date ("Dematerialisation Date").

The Group has identified three possible approaches to dematerialisation;

- (i) a "Big Bang" approach where all companies are dematerialised as of the same date or
- (ii) a "Phased" change-over, i.e. dematerialisation becomes effective on a company by company basis as each company sends shareholders a shareholder statement over a period prior to a final cut-off date. Share certificates will no longer be issued by that company from the date of issuance of the initial shareholder statement, or
- (iii) a third "Dual" approach where each company sends shareholders a shareholder statement over a period prior to a final cut-off date as in (ii) above to coincide with other company mailings. The difference between the Phased and Dual approaches is that if the Dual approach is adopted, companies will not dematerialise their securities until the final dematerialisation date. Share certificates will be issued in tandem with shareholder statements over the period from the issuance of the initial shareholder statement, which would vary per company, until the dematerialisation date.

### (a) "Big Bang" approach

If a "big bang" approach were adopted, it would need to be carried out over a weekend so that shareholder statements would be printed at close of business on a Friday and posted on a Saturday/Sunday. It is envisaged that the process would operate as follows:

- Registrars for all Irish CREST settleable securities print shareholder statements for all accounts on

their client registers as at close of business on the Friday,

- The use of share certificates and CREST Transfer Forms ceases from close of business on the Friday,
- The shareholder statements are packed and posted over that weekend, and
- Shareholders would receive their shareholder statements on the Monday or soon after.

The principal arguments for and against this approach are that it would:

- (i) be more straightforward for stockbrokers to operate as all Irish securities would be dealt with in the same manner both prior to and after the dematerialisation date thus avoiding confusion in dealing for clients,
- (ii) avoid the need for Stockbrokers', Registrars and the CREST Settlement systems having to facilitate separate processes for both paper and dematerialised systems,
- (iii) involve additional costs of mailing for companies, particularly for those with large registers.

### (b) "Phased" approach

If a "Phased" approach were adopted, it could be carried out over a period of time. The duration of the period prior to a final cut-off date will have to be decided on. It is envisaged that the process would operate as follows:

- Shareholder statements issued to shareholders any time prior to the final dematerialisation date, possibly with another company posting (annual report, dividend cheque etc.),
- The use of share certificates and CREST Transfer Forms for that company ceases from close of business on the date of the production of the initial shareholder statement,
- All companies must be dematerialised by the dematerialisation date.

The principal arguments for and against this approach are that:

- It would enable companies to reduce postal costs by sending initial shareholder statements out with other correspondence e.g. Annual Reports,
- It may be easier to manage the implementation process if dematerialisation is introduced on a phased basis per company rather than by implementing full dematerialisation for all companies on the same date, as is the case in the "Big Bang" and "Dual" approaches,
- CRESTCo would need to set up a process so that the CREST database correctly reflects the dematerialised status of each security at all times.
- The costs associated with running two systems over a period of time may be considerable,
- This approach would need to be carefully managed to avoid confusion among stockbrokers when selling securities just prior to a security becoming dematerialised.

### (c) "Dual" approach

This approach is similar to the "Phased" approach in that it could be carried out over a period of time prior to the dematerialisation date. As for the "Phased" approach, the duration will have to be decided on prior to a final dematerialisation date. It is envisaged that the process would operate as follows:

- Initial shareholder statements are issued to shareholders some time in advance of the final dematerialisation date, possibly with another company posting (annual report, dividend cheque etc.),
- The company's shares would NOT be dematerialised effective from the date of the issuance of the initial shareholder statement but would be dematerialised from a subsequent final dematerialisation date,
- Where shareholders sell shares between the date they receive their initial shareholder statement and the dematerialisation date they would receive a new shareholder statement as well as a

share certificate if a balance share certificate is due to the shareholder, and

- All companies will become dematerialised by the dematerialisation date.

The principal arguments for and against this approach are as follows:

- A combination of the "Big Bang" and "Phased" approaches, this would have the advantage of ease of operation for stockbrokers as relevant securities would be treated in the same manner; i.e. securities would all be either dematerialised or certificated at the same time, and would reduce costs for issuers,
- it will be necessary for Registrars (but not market firms) to maintain two separate systems for each issuer for a period prior to the dematerialisation date as shareholder statements will need to be produced in tandem with share certificates until the dematerialisation date.

## 5. Transitional Issues

Upon the implementation of dematerialisation all shareholders will be sent statements of their holdings. Shareholders who have unsettled transactions (sales, purchases and off-market transfers) in the system at the dematerialisation date, would receive a shareholder statement showing a different number of shares than they beneficially own. This may cause confusion among shareholders. However, this situation would be resolved quickly in the "T+3" settlement cycle.



### QUESTION 10

- (i) Do consultees consider that dematerialisation should take place under either (a) the "Big Bang" (b) the "Phased" or (c) the "Dual" approach? Please state your reasons.
- (ii) How much lead in time would be required for the "Phased" or "Dual" approaches?
- (iii) In relation to the "Phased" approach, do consultees agree that this approach should have a cut-off date?
- (iv) Do consultees envisage any other issues that may arise from the above approaches that have not been identified in this document?

### QUESTION 11

How much lead in time do CREST participants consider is necessary to make required software changes?

### QUESTION 12

Could issuers please provide details of (i) whether they would need to make changes to their Articles in order to implement dematerialisation and (ii) the required lead time to make such changes.

### QUESTION 13

How much advance notice would be required by issuers to include a note in their interim or final report or to send an information note with another mailing to shareholders?

### QUESTION 14

What mechanism do consultees feel would be appropriate to minimise confusion for shareholders who have unsettled transactions in the transitional period?

# Appendix I: Glossary

## Contract Note

A confirmation in writing of a purchase or sale of an investment, which is issued to clients by their stockbroker by the business day following the transaction.

## Corporate Action

A term given to an action taken by a company that changes the nature or description of that company's stock. Corporate Actions include takeovers, rights issues and capitalisations.

## CREST

The electronic system for holding securities and settling transactions in Irish, UK, Jersey, Guernsey, Isle of Man and some international securities, which is operated by CRESTCo.

## CREST Courier and Sorting Service (CCSS)

These sites operated by a courier service, primarily act as central delivery points for share certificates and the related CREST Transfer form necessary to process certificated transactions. This is the CREST system's current paper handling mechanism.

## CREST Participants

This term includes stockbrokers, registrars, custodians and other institutions, which have access to the CREST settlement System.

## CREST Personal Membership Account

A type of account provided by CRESTCo where shareholders may hold their shares electronically in their own name on the share register rather than in the Nominee name of the stockbroker.

## CREST Transfer Form

Document which owners of CREST eligible securities have to sign when they sell a security. The transfer has the effect of transferring legal ownership to the certificated CREST member transacting the sale.

## Central Securities Depository or CSD

A CSD is a holding place for dematerialised securities. Settlement of securities held in a CSD is recorded by book entry transfer.

## Dematerialisation

This means the removal of share certificates and the CREST Transfer Form from the issuance, securities trading and post trade processing cycles of Irish equities admitted to trading on a regulated market (including an Exchange regulated market, such as IEX and AIM) and of some other CREST settleable securities. They will be replaced by a paper shareholder statement and Shareholder Reference Number (SRN) and possibly a PIN.

## Dematerialisation Date

The date from which share certificates will no longer be valid and from which they will be replaced by shareholder statements.

## Deposit Sets

Each CREST Transfer Form, together with any documents, such as share certificates relating to and submitted with such form comprises a Deposit Set.

## Electronic Data Capture (EDC)

This is the process whereby the stockbroker inputs details of the transfer and share certificate into the CREST system and issues a Stock Deposit Reference Number (SDRN).

## Euroclear

Euroclear is a Europe-based provider of domestic and cross-border global settlement and related services for bond, equity and fund transactions. Market owned and market governed, the Euroclear group comprises Euroclear Bank, based in Brussels, focusing on international securities clearing and settlement, as well as Euroclear France, Euroclear Nederland and CRESTCo, the central securities depositories of France, the Netherlands, and the UK and Ireland, respectively.

## Graphical User Interface (GUI)

Software used by CREST members to obtain access to the CREST system, which enables members to make real-time enquiries as to the status of settlement of transactions and to adjust individual items of data.

## Immobilisation

This is where one initial share certificate is issued, which is held at a depository with all records of initial beneficial ownership and subsequent changes recorded via book entry rather than on share certificates.

## Intended Settlement Date (ISD)

This is the settlement due date of the transaction.

## Nominee Companies

These are separate limited companies set up by market entities to hold client shares electronically in CREST or otherwise.

## Open Offer

This is an invitation to existing securities holders to subscribe or purchase securities in proportion to their holdings, which is not made by means of a renounceable letter (or other negotiable document), but is made using assignable or transferable application forms.

## Provisional Allotment Letters (PAL)

Provisional Allotment Letters (PALs) sent to shareholders must be returned to the Registrar by shareholders in order to take up an entitlement in a rights issue. The PAL contains details of the holding of Ordinary Shares registered in the name of the shareholder on the Record Date and on which their entitlement is based and the number of Rights Shares provisionally allotted to them (for which they are entitled to subscribe). Provisional Allotment Letters also contain full instructions regarding acceptance and payment, renunciation, splitting and registration in respect of the Rights Shares and the procedure to be followed if shareholders wish to dispose of all or part of their entitlements either nil or fully paid.

## Personal Identification Number (PIN)

The number, which may be issued to shareholders in addition to the SRN (defined below), depending on the outcome of this consultation paper. The PIN, if implemented, would be optional for stockbroking firms to adopt and shareholders would be required to provide several digits from the PIN on placing instructions to deal.

## Register Update Request (RUR)

An instruction issued by CREST requiring the issuer or its registrar to register a transfer of title.

## Rights Issues

An invitation to existing shareholders to purchase additional shares in the company in proportion to their existing holding usually at a discount to the market price.

## Settlement

This is the process whereby shares are delivered from the seller to the buyer in exchange for payment to the seller.

## Shareholder

The term shareholder is used in this document to include both holders of equity shares in companies and bond holders.

## Shareholder Reference Number (SRN)

In the proposed new system, the unique identifying number to be allocated to a shareholder, which will be unique per issuing company.

## Shareholder Statements

In a dematerialised system, the statements that will be issued directly to shareholders from the Registrar after each transaction or movement on the shareholder's account. As these statements will be compiled by the Registrar at the close of business, they will include all transactions or movements on a shareholder's account for that day.

## Share Register

The register of shareholders maintained by the issuer or its registrar.

## Single Platform

The single platform is the long-term consolidated settlement solution, which will provide a system shared by all group CSDs and available to all Euroclear group participants.

## Single Settlement Engine

The Single Settlement Engine (SSE) programme consists of the consolidation of the securities and cash positioning and booking sub-systems of all Euroclear group entities. The SSE is the foundation for the further consolidation of all IT systems within the group.

## Stock Deposit (STD)

The STD is the electronic CREST instruction used to dematerialise investors certificated holdings into the account of a CREST member. The securities deposited are only reflected in a member's CREST balance once the Registrar has registered the certificated transfer.

## Stock Deposit Reference Number (SDRN)

This is the number issued by the stockbroker on inputting details of the transfer and share certificate into the CREST system. The number and type of characters included in the SDRN must comply with CRESTCo rules.

## Stock Transfer Form

Document which certificated shareholders have to sign when they wish to sell and transfer their shares to another person outside of CREST.

## Stock Withdrawal (STW)

The CREST STW instruction effects a withdrawal of securities from electronic holdings into certificated form. Upon registration, shares are transferred from the name of the CREST member into the account of the transferee.

## Straight Through Processing (STP)

STP means the automation of processing of transactions from order receipt to settlement, with the elimination of manual intervention in the process.

## T+ "date" (T+1 etc)

An abbreviation for:

- (i) Trade Date + the number of business days after the trade date on which the transaction will settle. If the transaction will settle on a "T+1" basis, this means that settlement will take place on the following business day after trade date ("T"). Similarly, "T+3" means that settlement will take place on the third business day after trade date. Standard settlement for non-certificated trades in Irish equities is currently carried out on a "T+3" basis.

## Appendix II: Schedule of Corporate Actions

Corporate Action Type	Currently Submit Certs	Currently Sent Certs	Current Process
<b>DIVIDENDS</b>			
Cash	N	N	No certificates issued
Scrip	N	Y	Shareholder sent share certificate and Tax Voucher attached
DRIPs	N	Y	Shareholder sent share certificate and Purchase Advice
<b>RIGHTS ISSUES</b>			
	N	Y	Provisional Allotment Letter (PAL) sent to shareholder  PAL is renounceable and can be sold nil paid (allotment letter is renounced and dematerialised)  Shareholder uses PAL to take up rights (attaches cheque)  Fully paid trading period. After period of Fully Paid trading, Fully Paid become Ordinary  Renounced fully paid PALs can be re-registered. New shareholder sent certificate after the end of the fully paid period.  Claims settled with renounced allotment letter
<b>OPEN OFFER</b>			
	N	Y	Application form sent to shareholder  Shareholder uses form to take up offer (attaches cheque)  Claims settled by renouncing form and passing to buyer. Buyer will re-register into own name.  Share certificate sent to shareholder
<b>BONUS/CAPITALISATION</b>			
	N	Y	In most cases share certificate automatically sent to shareholder
<b>DEMERGER</b>			
	N	Y	A new share certificate is issued in new company.
<b>FLOTATIONS</b>			
Offer for Subscription/Sale	N	Y	Shareholder receives certificate after subscribing
Placing	N	Y	Shareholder receives certificate after participating
<b>REPAYMENTS</b>			
No exchange	N	N	Shareholder receives payment automatically
Exchange Cert	Y	N	Shareholder forwards certificate and signed repayment form to Registrar and then receives payment

<b>CHANGE OF COMPANY NAME</b>	N	N	No action
<b>CONSOLIDATION/SPLIT</b>	N	N	No action
<b>CONVERSION- Two Types</b>			
(i) Compulsory	N	Y	Shareholder sent certificate
(ii) Ad Hoc	Y	Y	Shareholder instructs using convertible certificate
<b>WARRANT SUBSCRIPTION</b>	Y	Y	Shareholder instructs using warrant certificate
<b>OFFER ACCEPTANCES</b>			
Tender Offer	Y	Y	Shareholder signs acceptance form and returns with share certificate (Balance)
Schemes and Takeovers			
(i) Cash Offer	Y	N	Shareholder signs acceptance form and returns with share certificate. Shareholder sent new certificate.
(ii) Share Offer	Y	Y	Shareholder signs acceptance form and returns with share certificate. Shareholder sent new certificate.
(iii) Mixed consideration	Y	Y/N	Shareholder signs acceptance form and returns with share certificate. Shareholder sent new certificate.

## Appendix III: Membership of Dematerialisation Implementation Group

Lindsey Bliss	Euroclear
Eamonn Carey	Department of Enterprise Trade and Employment
Neil Colgan	CRH plc
Albert Farrell	Computershare
Jack Grehan	Financial Regulator
Brian Healy (Chair)	Irish Stock Exchange
Eileen Kelly	Goodbody Stockbrokers
Mary Lyons	Irish Stock Exchange
Joan Moran	Bank of Ireland Securities Services
Pat O'Donoghue	Capita Corporate Registrars Plc
Pauline O'Donovan	Matheson Ormsby Prentice
Kevin Petley	Davy

