

SELECTING A REGISTRAR

Guidance
Report



Overview

This document is a clear and comprehensive guide to assist companies considering an IPO to get the best value, service and a fair contract with their potential registrar.

My aim, as the owner of Neville Registrars, is to provide for our issuers an efficiently run business and to share the benefits of our efficiency as fairly as possible. I believe that the enormous disparity between the levels of fees charged by different registrars for similar services makes the sector largely uncompetitive and overpriced. I sincerely wish this document helps improve competition.

Brian Cox

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Why do issuers need a Registrar?

The Companies Acts require a company to maintain a register of members (shareholders). In addition, the Listing Agreements and Admission Rules of recognised UK stock exchanges require listed companies (“issuers”) to have arrangements in place to support electronic settlement of the trading of their shares. Electronic settlement in the UK is provided by the UK’s central securities depository, CREST, operated by Euroclear (UK & International) Limited. Companies contemplating an initial public offering (“IPO”) need, accordingly, to engage one of the UK’s half a dozen or so CREST-accredited registrars to receive electronic register update requests (“RURs”) from CREST and to update their register of members.

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Registrar Services

The Registrar’s most important function is maintaining the register of members: this mainly involves the processing of both electronic and certificated (paper-based) share transfers, which may be particularly numerous immediately following an IPO and again around the time of announcement(s) of the issuer’s results.

Of the shareholders on an issuer’s register of members, a small proportion will be financially sophisticated CREST participants and they will require minimal help from the registrar: the greater proportion of members will typically include large numbers of certificated shareholders who need professional help in dealing with such matters as bereavement, transmission of shares upon death, executorship, probate, lost share certificates and stamp duty reserve tax on transfers of shares.

The registrar is often called upon, as the issuer’s agent, to assist the directors and company secretary of the issuer with such matters as the administration of General Meetings, receiving and reporting proxy appointments and instructions, payment of dividends and other corporate actions.

Issuers also need and call for specific information from the registrar concerning changes in the issuer’s membership. They may also instruct the registrar to despatch notices in accordance with s.793 of Companies Act 2006 requiring information identifying underlying beneficiaries of shares held in the name of nominees and to report on those enquiries and to maintain the relevant statutory records.

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To and for whom do Registrars provide services?

Much of a registrar's work consists of professional advice regarding the Companies Acts and corporate governance standards and is provided direct to the issuer's directors and/or company secretary, often via the registrar's designated account relationship manager: such services allow issuers to assess and to monitor closely the quality of the services provided. There are, however, important services provided by the registrar direct to the issuer's shareholders: these services are unlikely either to be overseen by the registrar's account relationship manager or to readily allow monitoring of service quality. At least one registrar still requires shareholders' telephone enquiries to be made to a UK "08" premium number which will cost the shareholder 12p per minute plus network extras: some issuers will choose better quality services for investors in their shares.

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How many registrar Quotes should be sought?

It is recommended that companies contemplating an IPO should seek quotes – and compare them very carefully - from each of the five principal CREST registrars:- Equiniti Group Limited, Computershare Investor Services plc, Link Market Services Limited, Neville Registrars Limited and Share Registrars Limited.

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Registrars' Tariffs

Registrars' quotes for services will normally provide their tariff for a variety of different service items: an issuer contemplating its IPO may find such tariffs less than helpful for budgeting purposes, mainly because the post-IPO numbers of live shareholders and of annual transfer activity to be expected will at all early stages be unknown quantities. The 'headline' fee for each shareholder on the register may turn out not to be the largest individual item on the registrar's post-IPO invoice: one registrar's activity charge for each electronic share transfer ("Register Update Request" or "RUR"), can turn out to be as much as five times as much as a competitor's.

For an issuer contemplating an IPO, the annual registration fees will be insignificant in relation to the overall IPO expenses and, in most cases, insignificant for budgeting purposes: but registrar fees are not a one-off expense and will be an annually-recurring expense item. If a strict budget figure is required initially, it should be possible to find a registrar who will provide an all-in, fixed-price contract for the first post-IPO year, subject, of course, to review when the one-year contract has been completed and a renewal contract is negotiated.

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Financial Stability of a registrar

With accounting information for UK-incorporated companies being available online at Companies House, it should be standard practice to check the latest accounts of any UK company with whom an issuer is contemplating doing business: this becomes even more important if the proposed contract duration is longer than one year. The financial health requirements should include surpluses of net tangible assets and of net current assets, profitability (but not excessive profitability!) and no borrowings by the registrar (or by its parent company) which may be excessive in relation to tangible assets. Such financial health checks should minimise the risks of possible failure.

Of the UK's half a dozen or so CREST-accredited registration businesses, three were in existence well before 1990 as subsidiaries of clearing banks and have since been acquired by buyers, sometimes from overseas, and have accumulated (some more than once) borrowings and/or additional borrowings, reflected either in their own accounts or in those of a parent company. Some of the borrowings seem to be permanent rather than repayable and may give rise to increased borrowing costs as interest rates rise.

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Service Quality

When registrars attempt to describe (and sell) their own services, they may be inclined to exaggerate: it is recommended that the greater weight be attached to commendations for good service from shareholders or from independent sources such as Trustpilot.

Quality of service from a registrar is very important to shareholders, and it may be worthwhile for an issuer to make enquiries and to sample the quality of the service which its non-director shareholders may expect to receive: failing this, the issuer should make enquiries as to how and from where register enquiries from shareholders will be answered. Some registrars may, for instance, arrange for shareholder enquiries to be dealt with from a separate call centre, possibly located overseas.

Easy access by telephone call from shareholders to the registrar is of importance. In order to assess whether shareholders will have easy access, an issuer may potentially need to ascertain whether shareholder telephone enquiries are encouraged or discouraged, and whether they are answered by an automatic switchboard or dealt with from the outset by a friendly responsive human being.

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Rankings Guides

Rankings Guides covering registrars are published twice a year, to which financial advisers should have access. These guides show which registrars have recently gained and lost market share: such indicators may guide issuers towards registrars whose better quality service is receiving market recognition.

Soon after an issuer has selected a registrar, the registrar will present the issuer with a multi-page agreement in standard form, drafted by lawyers, requesting the issuer to sign. If careful reading by the issuer of that standard agreement discloses no unexpected wording, the response of issuers may be to assume that any proposed variation of the standard terms is likely to be resisted by the registrar and to proceed to execute the document. Before doing so, the most important terms to be considered include:-

(a) Contract Duration

The right to move one's business elsewhere is a valuable right and no issuer should fetter or undervalue its contractual freedom unnecessarily. It is recommended that any issuer asked to sign a registration agreement with a duration of more than one year should ask the registrar how the longer duration can be justified.

Several CREST registrars offer registration agreements of one year's duration. In order to minimise constraints on contractual freedom and to correspond with normal annual budget requirements, the vast majority of commercial service contracts are of no more than one year's duration. It seems unlikely that any registrar would be arrogant enough to decline a potential client company's offer of a one-year agreement and hold out for a longer engagement.

Issuers content with the price and quality of the services they receive from their registrar during an initial one-year contract should, of course, be happy to renew thereafter on an annual basis.

Registration contracts of no more than one year's duration are readily available and should be insisted upon.

(b) Automatic Extension of Contract Term

If a Registrar's standard contract provides both for an automatic extension of the contract term and a lengthy (say six months') period of notice, it is recommended that issuers should seek advice from lawyers familiar with competition law. The inclusion of both such terms in a consumer contract (but not in a commercial contract) would probably not pass the Unfair Contract Terms legislation: such complexities are best avoided because of possible unfairness.

(c) Period of Notice

The minimum possible period of notice under a registration contract seems to be just over twenty business days as a result of the Rules of the UK's central securities depository, CREST, requiring that it shall be given 20 business days' notice of the proposed transfer of a register from one registrar to another. Those Rules also require that transfers of registers shall take place on Friday evenings. The minimum period of notice in a registration contract does not therefore need to exceed say, 25 business days. Any longer period of notice of termination of contract (six months' notice is commonly requested) would need to be justified by the registrar proposing it.

Issuers giving notice of termination should take into account that CREST requires transfers of registers to take place on Fridays and are advised, having selected their new registrar, to notify both their incumbent registrar and CREST of the particular Friday they have selected on which the transfer of register is to take place. If this advice is followed, delay or failure on the part of the

incumbent registrar to meet the specified register transfer date would amount to a breach of contract.

If this procedure is not followed, issuers giving notice may find that the outgoing registrar advises that the proposed register transfer date does not fit easily into his busy work schedule and chooses to ignore the strict terms of the contract; he may instead propose a separate 'migration project', with its own timetable, to proceed in the same way as a corporate action: if this happens, the effect is an extension of the term of the registration contract, sometimes by several months.

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Extra-Contractual Corporate Action Services

A wide variety of corporate actions require reference to the issuer's register of members and may need assistance from the incumbent registrar. On such occasions the issuer will request a quote from his incumbent registrar for provision of the necessary assistance. In those circumstances, the price-bargaining position between issuer and incumbent registrar in relation to register access and services to be provided will be unequal and will be skewed in favour of the incumbent registrar. Any issuer dissatisfied with an incumbent registrar's price for services arising from such negotiations should seek advice from another registrar and, if possible, that registrar's competitive quote.

Is further assistance required?

It is hoped that the above guidance is of help, but if you would like to discuss any of the above matters, Neville Registrars would be delighted to hear from you and would be grateful if you would telephone Emma Winnall, please, on 0121 585 1131.