
Briefing Note

The first step towards digitisation: increasing payment of dividends through CREST

November 2022

Over recent years financial markets have seen an increased interest in ESG initiatives, including various moves towards making trading, settlement and asset servicing a more efficient and paperless environment.

The UK Secondary Capital Raising Review, published in July 2022, proposes ways to ensure the UK remains competitive and an attractive place to raise capital. The review highlighted the growing expectation to improve the UK's current shareholding framework, including the digitisation of the various processes involved.

With regards to dividend processing, the recent experience of financial firms (brokers and custodians) during COVID-19 lockdowns has highlighted the inefficiencies with the payment of dividends by physical cheque, despite the functionality to support the payment of dividends through the CREST system being in place since 2004.

This recent experience has given renewed impetus to increase usage of CREST system functionality. Euroclear UK & International (EUI) recently consulted on potential changes to encourage the payment of dividends, interest and redemptions through the CREST system.

We fully support this move by EUI and believe that there is no longer any reason for issuers not to pay dividends on dematerialised shareholdings through the CREST system. It is time that the UK financial market aligned to the Corporate Action Joint Working Group (CAJWG) standards which recommend that *'Payments should be made through the Issuer (I)CSD, using the same Payment mechanism as for other cash transactions through the Issuer (I)CSD.'*

All the registrars for domestic equities in the CREST system can support the functionality and have issuers using it successfully, and yet only 50% of the FTSE350 issuers use the functionality. This is in contrast to the demand shown by the shareholding participants where, at the end of September 2022, approximately 91% (by value) of domestic equities (for which EUI is the Issuer CSD) that are held in the CREST system are held by participants that already have indicated that they wish to receive their dividends through the CREST system.

In turn, we strongly urge the issuer and registrar community to reassess their usage of the CREST system for paying their dividends as the full benefits and cost savings cannot be achieved without both issuers and their shareholders coming together.

We recognise that the necessary changes may require some time to be implemented but are aligned with EUI in believing that by the end of 2023 the payment of dividends through the CREST system for dematerialised shareholdings should be the standard method.

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