TOWARDS AN EFFECTIVE SCRIP SYSTEM

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Recent articles (Jassa 1976, Nos. 1 and 2) have examined the efficient use of scrip in the stock exchange. The possibilities put forward were either partial answers to the problems involved in scrip movements or steps towards a highly effective system, one step being the use of a clearing house.

This article discusses one possibly highly effective system.

It is envisaged that all scrip holdings would be handled similarly to and in conjunction with the usual form of bank money account. A banking type system would operate to record all scrip holdings. Clients would receive holdings statements quarterly or half yearly and transaction statements whenever the number of transactions exceeded a certain number i.e. covered a full statement page. In addition, the normal contract notes would be received for each transaction, which could be checked off against the next transaction statement and holding statement.

The above is similar to the normal money bank statements and it is envisaged that this recording system, on a client basis, would be operated by banks using their increasingly sophisticated computer systems.

It is also envisaged that there would be one share registry, minimising the share registry expenses for all listed companies.

When a transaction takes place on the stock exchange, the relevant details would be forwarded at the end of the day to the central share registry, all necessary adjustments of holdings made and details forwarded to the banks for updating their clients' records. The money bank accounts for the clients concerned, also operated by the banks, would be debited or credited as the case may be after deduction of brokers' fees, stamp duties, etc. These amounts would be credited to the appropriate brokers or governments concerned. The client bank accounts would be their normal bank trading accounts, the code numbers of which would be recorded by the central share registry together with such details as names and addresses.

All dividends and interest would be automatically paid by the central share registry to registered holders directly into their bank accounts. Bonus issues would be entered at the share registry and bank similarly to a buy transaction. Issues with an issue price would be advised to the holder by the registry for the holder to act as he sees fit.

To summarise, we have a scrip holding system operated similarly to a money bank account, it is operated in conjunction with a money bank account by the banking system with one share registry for all listed companies.

What then are the effects on the parties involved?

The **client** would enjoy a fast effective overnight system of recording holdings and carrying out transactions. Brokerage rates could be much lower due to the minimising of paperwork. There would be no need to hold scrip, which would be recorded at the share register and the bank as if it were a bank account. Scrip bank statements would be obtainable and received in the same way as money bank account statements. If thought appropriate, scrip pass books could be employed. This is an area in which banks could compete in regard to level of service offered.

The **banks** would provide an additional service to their clients, receive a fee, enjoy a closer relationship with their client and better utilise their computer systems.

Stockbrokers would not handle cash or scrip, scrip certificates would not exist. Only details of transactions need be advised to the central share registry, all cash and scrip movements would be handled by the share registry. A stockbroker would merely receive his fees each day for the transactions of the previous day. Contract notes would be produced by the share registry and forwarded to the clients involved with a copy to the stockbroker, in the form of a schedule.

Overall there would be no delays whatsoever in recording changes in shareholdings. Proof of shareholdings would be indicated by scrip bank statements and easily confirmed by a telephone call to the relevant bank. Scrip encumbered for loans or such like would be advised to the share registry and no transactions accepted. Attempted or actual sales of another's holdings would not benefit the guilty party as proceeds would be credited to the account of the true owner, who would be quickly aware, via the contract note, of the unauthorised transaction.

Purchases without the necessary funds being available would create an overdraft situation which would be handled in the normal way by the bank concerned. Failing brokers would not affect any other party as brokers handle neither scrip nor cash. My own view is that stockbrokers would tend to concentrate on their natural function of client advising, security analysis and portfolio management.

In essence the system outlined above utilises the existing banking system and the increasingly sophisticated computer resources being used by the banks. There is no reason why the one share registry for all listed companies could not be conducted by the stock exchanges.

Mobilising Scrip for Stock Exchange Efficiency

Two previous articles have examined how stockbrokers could reduce their overdrafts and interest expense and the advantages of a scrip repository. This article looks at another source of scrip and how to effectively use it.

The source is the scrip holdings of the largest institutions. This scrip does nothing, its return being derived from the ownership it represents. It is seldom if ever mortgaged or otherwise utilised. It is envisaged that these scrip holdings be utilised temporarily for scrip movements through the stockmarket, as required, while the ownership benefits continue to be derived by the owner, the institution concerned.

To compensate the owner for the use of the scrip it is envisaged that all stamp duty expenses would not be to the institution's account and that the institution would be paid for the temporary use of scrip by a rate of interest, say 5% per annum, calculated on a daily basis for the term the scrip was used at market price. It could be the case that stamp duty may be waived on such activities.

The institution would therefore receive a net 5% return on scrip **in addition to all dividends and capital value changes.** Such a return is unavailable from any other source and will be attractive.

The operations of the system could be as follows.

The institution co-operating with the system would be allocated a Broker Number on the Broker/Broker computer system, say Broker 77. Any temporary lending of scrip by the institution would be entered into the Broker/Broker system as a buy to Broker 77 and a sell to the clearing house. The institution would thus have a full record of the transaction, receiving Broker 77 trading lists and outstanding delivery lists as well as automatic records of dividends, capital issues etc., thus maintaining full ownership rights. This uses the existing facilities for protecting the rights of unregistered buyers.

Scrip would be on-lent by the clearing house to brokers desiring scrip at, say 8%. The clearing house would have a form such as a company limited by guarantee, guaranteed by all members of the exchange and having no rights to trade securities. Scrip as well as ownership rights would be fully secure for the institution involved. When scrip temporarily lent by the clearing house was returned it would be re-registered into the name of the institution and the buy in Broker 77's records removed.

If a form of clearing house was in operation the institution's scrip would be returned as soon as an excess of scrip, for the security concerned, occurred in the clearing house.

The end result is that the stockmarket has a source of scrip for temporary shortages and the institution concerns derives an attractive extra return on its scrip holdings.

BOOK REVIEW

A FORWARD LOOK AT BANKING

In this work, the editors (well-equipped in the field of banking) have brought together 23 of leading U.S. bankers and economists to examine the dynamic changes now taking place in the field of banking. These authorities cover specific subjects in which they are highly qualified. Each expert, in a separate chapter, discusses the changes occurring in his area of expertise, such as: liability management and extensive purchase of funds, and its impact on the concept of loan-deposit ratio; the creation of the Euro-dollar market and its growth; modernisation of the cheque clearance process; foreign operations; the role of automation and the internal payment system; the role of the Federal Reserve System, and social responsibilities of banking.

Other subjects covered include bank investment portfolio management; planning and control systems for commercial banks; trust departments in transition; changes in bank personnel management; and a look at the future for American banking.

This is a very interesting book, particularly for those interested in commercial (or trading) banking.

("The Changing World of Banking" edited by Herbert V. Prochnow and Herbert V. Prochnow Jnr., Harper & Row, New York, 1974, Pp. 406 $A14.40).

E.F.G.