

visited 6/17/2008

Street name securities

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In the United States **street name securities** are securities of publicly traded companies held electronically in the account of a stock broker, similar to a bank account. The actual shareholder is referred to as the beneficial owner. In the United Kingdom this is known as holding shares in a **nominee account**. Although terminology between countries differs the basic principles are the same.

The popularity of nominee accounts has increased rapidly since the introduction of Internet sharedealing in the late 1990s and in some cases stocks can only be held electronically, such as Exchange Traded Funds, but holding shares in this way can have disadvantages compared to other methods.

Holding Methods

Street name is one of the three ways of holding securities. The other two are:

- Stock certificate
- As a "direct" registration (Personal CREST account in the UK)^[1]

Nominee accounts make paperless telephone and internet trading possible with faster settlement periods and lower commissions than certificate deals. They often enable domestic small investors to gain access to derivatives such as warrants and contracts for difference, to exercise various types of order, and to buy shares on margin. There is no risk of loss or damage to certificates. It is also possible to obtain an instant valuation of a whole portfolio. On the negative side the shareholder is tied in to one stockbroker, as opposed to a certificate holder who can pick and choose stockbrokers every time they deal. If the shareholder is unhappy with their nominee service, they have to arrange to transfer the shares out which can be a lengthy process for which there is usually a charge. The lack of a share certificate can also make it difficult to use shares as collateral for a loan.

Because the shares are held in the name of the stockbroker the name of the beneficial owner does not appear on the share register. This means that dividends, shareholder perks, company reports, details of corporate actions and other communications are sent to the stockbroker rather than the beneficial owner. The extent and methods for handling this can vary considerably between brokers. Failure of the stockbroker to pass on shareholder rights and communications to the beneficial owner is one of the major complaints against nominee accounts and is a major reason why activist shareholder

organisations such as *The United Kingdom Shareholders' Association* are opposed to their use.^[2] During 2006 the UK government passed an amendment to the Companies Act 1985 which gave nominee shareholders more rights.^[3]

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The anonymity of nominee accounts does benefit individuals who wish to hold shares in controversial companies. This has proved useful in situations where investors on share registers have been threatened by animal rights protestors, such as Huntingdon Life Sciences and GlaxoSmithKline.^[4] As a consequence, the protestors have been known to intimidate the employees of the stockbrokers instead in order to try to force the companies to stop handling the shares.^[5]

Footnotes

- ^{1.} ^ Holding Your Securities - Get the Facts (<http://www.sec.gov/investor/pubs/holdsec.htm>), United States Securities and Exchange Commission, 03/04/2003. Retrieved 30th November 2006.
- ^{2.} ^ Policies - Share Certificates, Nominees and Crest (http://www.uksa.org.uk/Share_Certificates_Nominees.htm), The United Kingdom Shareholders' Association. Retrieved 30th November 2006.
- ^{3.} ^ Oldham, G. (2006), Big deal for nominee shareholders (<http://news.bbc.co.uk/1/hi/business/5194674.stm>), *BBC News*, 25th July 2006. Retrieved on 30th November 2006.
- ^{4.} ^ Glaxo investors ask for anonymity (<http://news.bbc.co.uk/1/hi/business/5004876.stm>), *BBC News*, 22nd May 2006. Retrieved on 30th November 2006.
- ^{5.} ^ Curry, D. (2001), Lab protestors target stockbroker (<http://news.bbc.co.uk/1/hi/business/1162647.stm>), *BBC News*, 9th February 2001. Retrieved on 30th November 2006.

See also

Custodian bank

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