OWNERSHIP RIGHTS ON INTERMEDIATED SECURITIES

Tatjana Jukna¹, Janis Grasis²

¹,² Riga Stradiņš University, Riga, Latvia

e-mails: ¹Tatjana.jukna@gmail.com, ²Janis.Grasis@rsu.lv

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ABSTRACT

The article is devoted to the contemporary problems of the ownership rights on intermediated securities. Authors study ownership rights as well as reviews the models of the proprietary rights in the modern holding chains and models of the securities holding systems, such as direct, indirect and mixed. Then author reviews the multi-tiered system of intermediation holding and proprietary rights in it under the discourse of the Latvian law, which stays on the position of the individual ownership model. This model contemplates that the end-investor has complete ownership on the securities and argues that ownership rights on intermediated securities, which are confirmed by the intermediary to the end investor under Latvian approach is a current legal fiction.

Objectives: The study aims at continuing development of the securities law theory, while its task is to characterise the ownership rights on intermediated securities from the point of view of Latvian law and practice.

Methods/Approach: Scientific research methods – both comparative and analytical – is used in the process of drawing up of this article.

Results: Authors come to conclusion that the scope of the rights confirmed by intermediary is narrower than scope of the “classic” legal ownership rights) as well as states that the type of account is the additional attribute which allows to determine the status of the proprietary rights on securities entered in. The legal fiction of the “ownership” on intermediated securities is created to eliminate too complex descriptions of underlying rights and to simplify the description of the transaction, applying clear and understandable simple structures such as sale purchase or repo.

Keywords: securities, ownership, intermediaries, repo, Latvia

JEL classification: K11, K15, K22

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INTRODUCTION

The authors believe that it is difficult to imagine situation when somebody is confirming ownership rights to third person without understanding of the nature of the confirmation and volume of the rights which are confirmed. Thus, the importance of the article could be explained with insufficient attention paid and scientific research undertaken in particular on the subject of securities law, its content and contemporary legal understanding of the existing processes. The article is part of the Tatjana Jukna’s dissertation and contribution of the authors in the project “Quadruple Helix Concept as Base of Sustainability via Next Generation PPPP Model Know-How”.
The purpose of the article is to clarify the essence of certification of ownership rights on intermediated securities by financial institutions, simultaneously developing securities’ law theoretical justifications which could help to resolve practical issues in future. The study aims at continuing development of the securities law theory, while its task is to characterise the ownership rights on intermediated securities from the point of view of Latvian law and practice.

**METHODOLOGY**

Methods and materials: methods used to achieve the aims of the study are comparative and analytical methods of scientific research. Materials of the studies consists of analysis of law texts, scientific articles and publications, as well practical experience gained in the topic of the research.

**DISCUSSION AND RESULTS**

**Ownership rights on intermediated securities**

Contemporary opinion about nature of securities from the point of view of the investor\(^1\) states that securities is, on the one hand, a personal right of the investor against the issuer of the securities, a kind of contract, and on the other hand, it is an asset or property of the investor (Alferez, 2006), (Donald, 2005). Thus, the question of an investor's personal rights is an object of corporate law, and, in turn, proprietary rights are an object of civil law governing proprietary relationships.

The word “securities” in Latvian means "vērtspapīri", which can be translated literally into English as valued papers. This Latvian word itself indicates the historical characteristics of the formation of securities, namely, the historical issue of securities in paper form.

This issuance of securities in paper form has created a legal fiction in which intangible things (the rights and obligations of the issuer) have been attached to tangible thing - a specific document, namely incorporated into it. At the same time, such a legal fiction also has legal consequences. The main function and purpose of such attachment when creating a new legal fiction was to simplify circulation of securities (their purchase and sale) as a thing of material world, tangible asset. At the same time a bona fide purchaser relied on physical possession of a thing (security) with which non-material personal rights were assigned (Alferez, 2006).

“Legal fictions prove indispensable in connecting the law’s familiar experiences and its conventional knowledge with these unanticipated human events to attain an outcome that is most congruent with what society understands its legal system to be” (Boyte, 2014).

In the digital age, the physical papers have been replaced by an electronic record to speed up circulation of securities and to avoid necessity of physical delivery of the papers. In essence, one fiction has been replaced by another fiction, although the essence of the record has not changed, rights are still incorporated into it. The electronic record is an electronic code or a set of impulses.

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\(^1\) The words “investor”, or “end-investor” are used in the meaning of account holder who is not acting as account provider of someone else.
Previously, the transfer of ownership of a security required a) a contract - the security itself, which incorporated the rights and obligations of the issuer and b) a physical transfer of the security (Alferez, 2006). Assuming that an entry in an electronic register constitutes a contract between an issuer and an investor, the transfer of such an entry constitutes the transfer of a security. It should also be noted that the electronic record itself is not transferred anywhere and when an operation is carried out one record is deleted and a completely new digital code is created, i.e. the external graphic image remains, but the new electrical signals are created, in other words they are replicated and the same code is not transferred. Thus, the major difference between securities in paper form and securities in the electronic form is the absence of the continuity of the electronic record: when ownership rights on paper securities was transferred, the physical transfer of security occurred, but when ownership rights on electronic security occurs, new replica of record is created.

What this replica means? It means that record is not passed. But if securities are the record with incorporated rights, then record should be passed, otherwise record is not security anymore. All these thoughts allow come to conclusion that electronic record does not incorporating personal rights on securities anymore. Personal rights on securities exist by themself, but they are closely connected with proprietary rights, and are virtually attached to the personality of the owner of proprietary rights as it was agreed for the purposes of European Securities law – “rights flow from securities” (European Commission, 2011). In other words, record is evidencing proprietary rights. The record in the form of various replicas could be reflected as on accounts of various intermediaries, as on account of the end-investor, who should be recognised as legal owner. It means that should be at least one more attribute, which allows to distinguish unambiguously between holding and ownership. While, the records are made in the accounts, it means that the type of the account must be considered as such attribute. As per author’s more than 20 years practical observation, when working with various jurisdictions the following classification of accounts could be provided:

(a) **Nominee account** is account in which ownership on securities is registered in the name of the trustee, who later confirms beneficial, equitable interest in securities (FATF, 2009).

(b) **Omnibus account** is account in which securities of various investors are held.

(c) **Nominal account** is account which could be used as individually segregated account to held securities of one certain investor, for example Alternative Investment Fund, as an omnibus account.

(d) **Proprietary account** is account in which securities which belongs to one investor are held.

For a more detailed understanding of the specifics of the registration of the ownership, it is helpful to consider the specifics of holding of intermediated securities because modern public trading requires securities to be in dematerialised (book-entry) form, and could be held through long chain of intermediaries, as it is illustrated in the Figure 1.
Models of the proprietary rights on securities in the modern holding chains

In general, there are various concepts regarding the holding and ownership of intermediated securities in world practice. For example, International Institute for the Unification of the Private Law Legislative Guide (UNIDROIT, 2017) identified various general models of holding systems. These models in general are very similar, but they reflect variations on proprietary rights in securities, legal relationships between account holders (investors), intermediaries and central Securities Depositories. Sometimes it is difficult to evaluate to which concept belongs existing system. Money (2019) indicates following models:

(a) individual ownership model, which contemplates that the investor has complete ownership on the securities registered in the account (France), neither CSD neither intermediary have interest in securities.

(b) co-ownership model, which contemplates that investor has co-ownership of his share of pooled securities held in CSD, which issued certificated on securities held with him. (Austria, Germany).

(c) trust-model, which contemplates those participants of the CSD are legal owners of the securities, participants act as trustees for the investors. Thus, investors are trust beneficiaries and have beneficial, equitable interest in securities. (Australia, England and Whales).

(d) security entitlement model, which contemplates that every account holder in the holding chain, including participants of CSD, acquires securities entitlement. “A security entitlement confers sui generis rights against the relevant intermediary and to the securities held by the intermediary. Account holders (“entitlement holders”) do not have direct rights against the issuers of securities” (Money, 2019) (Canada, United States).

At the concept of the securities entitlement new legal fiction has been created, i.e. the intermediary confirms an entitlement on the pool of the securities being in its possession (securities entitlement), which is called financial assets (UCC §8-102 (9)). “A security entitlement is a package of rights less then ownership on underlying financial asset” (Chun, 2012). Although the investor operates with this right as a he would have ownership when carrying out transactions. The above statement is true for any model of holding of proprietary rights. The legal distinction as to consequences only arises at the time of a shortfall of securities (insolvency of the intermediary or other negative event), when the investor, depending on the type of US intermediary, is returned either the securities in pro rata to their availability, subject to the rights of other investors with respect to a specific pool of securities, or compensation in the same pro rata amount.
The concept of securities entitlements is more developed in the systems of the common law (especially in US), as states Steven L. Schwartz despite the different models of holding investors are in the similar position when English model is applied; “investors enjoy proprietary interests in securities under trust and co-ownerships arrangements, technically, equitable tenancies in common” (Schwartz & Benjamin, 2002).

Therefore, in civil law jurisdictions the position of the law is not so clear in the absence of the special legislation. It should be noted that the Latvia belongs to the civil law jurisdictions and there is no positions and publication regarding problematics of the ownership rights on intermediated securities, but author believes, that Latvia belongs to the individual ownership model due to the absence of any other specific regulation except for provided in the “Financial Instrument Market Law” (Finanšu instrumentu tirgus likums, 2003).

As it follows from mentioned above no clear ownership rights in the classic meaning of these word, subject to individual ownership model, are confirmed to the investor, who believes to have proprietary rights – ownership on securities. The problematics of the individual ownership model in respect of intermediated securities will be reviewed in this article later.

Understanding of the ownership rights or the legal status of the securities could impact not only on transactions (the deeper understanding of their nature, as for example in the case of repo transactions), but on investor protection also, as well as on obligation of the intermediaries toward to the investors, especially when shortfall in securities occurs in the chain of the intermediaries, and securities are held by intermediary in accordance with instruction of the customer. The absence of the uniform understanding regarding classification of intangible assets as securities or claim rights (for example securities entitlement) creates uncertainty of relationships between investors and intermediaries.

**Models of the securities holdings systems**

In common 3 general types of the holding system exist, all others are variations: Direct holding system, indirect holding system and mixed holding system.

**Direct holding systems**

The system of direct holding of securities implies the creation of a centralised register (Central Securities Depository) (some analogue of a Land register) in which both the fact of issuance (the contract with the issuer) and the number of issued securities are recorded. The name of the investor at any given time is known to the CSD (Fei, 2021), because intermediaries, who are CSD participants open accounts in the name of each investor and there is a clear connection between the issuer and the securities belonging to each particular investor, on the level of CSD or participant. Under such concept of the holding, only the person registered in the register is recognised as the legal owner, and this person holds title on securities. In direct holding systems the names
of investors (legal owners of securities) are known to the CSD. A direct holding system recognises no nominee accounts and no right to share co-ownership on a pool of securities. Thus, the contract and the ownership of the record are closely linked, and it is possible to trace all records. Intermediary fills the function of the agents or attorney who represents investor, some kind of account operators. (see Figure 2). This model from the perspective of investor’s proprietary rights is clear individual ownership model.

<table>
<thead>
<tr>
<th>Central Securities Depositary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue of securities 1 (100 (1)+150 (2)+200(N)….+30(Z)</td>
</tr>
<tr>
<td>Investor 1 100</td>
</tr>
<tr>
<td>Investor 2 150</td>
</tr>
<tr>
<td>Investor N 200</td>
</tr>
<tr>
<td>Investor Z 30</td>
</tr>
<tr>
<td>Participant, operator of the Investor’s account</td>
</tr>
<tr>
<td>Participant N</td>
</tr>
</tbody>
</table>

**Figure 2. Direct Holding Model**

*Source: author’s illustrations*

This model from the perspective of investor’s proprietary rights is clear individual ownership model. The traceability and transparency of the records exists. The model is clear and understandable from the point of view of the corporate law. In this model CSD participants is conducting the function of the Intermediary operator of the account of the investor. It should be noted that under direct holding model CSD sees the exact number of the securities which belongs to each investor.

Such countries as UK, Spain, Scandinavian countries have developed centralised investors (shareholders) registration systems distinct from securities account systems, but other European countries, such as (Germany, Italy, France, Italy, Portugal, Latvia, Lithuania) (European Commission, 2011) where securities account system contributed to the identification of the shareholders. Countries, which has no centralised investors registration systems, usually uses Indirect holding System or Mixed holding system.

**Indirect holding systems**

In the indirect holding systems, the register (Central Securities Depositary) keeps information about the issuer, the number of issued securities, as well as information about securities owned directly by the participant (intermediary) and information about the securities being in a nominal holding of the participants (described here as a general case). Intermediaries, on the other hand, register the proprietary rights of the particular investor on certain securities in their (intermediaries’) books, accounts opened for each customer. As said Steven L. Schwartz “in an indirect holding system an issuer of securities generally records ownership of its securities as belonging one or more Depository Intermediaries” (Schwartz, S. & Benjamin J., 2002). This statement could be as correct as an incorrect, because for example in the trust model, intermediary participant is legal owner, and his securities are held on the nominee account, this statement is correct, but when securities are held on the nominal account (nominālais konts) he does not became the owner, he is only holder of the securities, and issuer can record that intermediary holds securities for investors. In other word, in the indirect
holding system intermediaries play an important role, they not only hold securities of the investors and know their names for the purpose of realisation personal rights virtually attached to every security, but they also confirm proprietary rights of each investor. For the indirect holding model please see Figure 3.

![Figure 3. Indirect Holding Model](source: author’s illustrations)

The systems of indirect holding recognize not only proprietary accounts, but accounts which differentiates the ownership status of securities held on them.

*Mixed holding systems*

In the Mixed Holding Systems, the register (Central Securities Depository) keeps various types of accounts proprietary accounts as for participants as for investors, as well as nominal accounts of participants intermediaries. Intermediaries -participants conducts the function of operators or agents of such investor’s proprietary account. The Figure 4 illustrates mixed holding model.

The model of the mixed holding system is laid down in Europe with Central Securities Depository Regulation (Regulation No 909,2014) (thereinafter - CSDR) and its later amendments. CSDR regulation is binding to Latvia as the EU Member state.

![Figure 4. Mixed Holding Model](source: author’s illustrations)
Investor 1 opened individual account as customer of Participant 1 – Intermediary, the as it is shown in the figure 4 “Mixed Holding System”. Intermediary operates this individual proprietary account of the intermediary, ownership rights for such segregated individual proprietary account confirms central Securities depository, therefore nothing is preventing the Intermediary to reflect securities directly registered with CSD, together with other securities held in portfolio in favor of the customers with other intermediaries (banks, investment brokerage companies and etc), when securities are held via longer chain of intermediaries (multi – tired intermediation).

**Multi – tiered intermediation in holding of securities**

When intermediated securities are hold within one jurisdiction, the law of only one jurisdiction applies, it means, that in such chain of the holding shouldn’t arise any discrepancies in relation of the ownership rights on securities or volume of the rights which belongs to the investor, especially, for example when securities entitlement model applies. But when overseas securities (from the perspective of the place where investor’s account is opened) are registered in the account, multi-tiered chain usually exists, and future it is not possible to answer on the question about type of rights which belongs to the investors. The problematic of ownership rights in multi-tiered intermediation holding will be reviewed later, in the separate chapter.

Multi -tired intermediation are reflected in the Figure 5 “Multi-tiered holding”. What means multi-tiered holding? It means that every intermediary in the chain confirms rights on the securities for the lower lever intermediary, without any knowledge of the identity of the end-investor (securities owner) at the certain moment, and in cases when lower-level intermediary must disclose information on the identity of investor (for tax purposes or corporate events), must rely on information provided by lower-level investor. The longer the chain, the less reliable information is provided, the more difficult to give the ultimate investor the opportunity to exercise the personal rights he or she has as a shareholder, for example to vote in a corporate meeting by expressing his or her opinion. It should be noted than the length of the chain is not limited.

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**Figure 5. Multi -tired holding**

*Source: author’s illustrations*
Summarizing mentioned above we quite easily may come to conclusion that: (the law of every certain jurisdiction, where intermediary is registered will apply at the certain level of holding. It means that ownership rights on any other rights in respect of securities are subject to the law of every jurisdiction. It is very important point for the future analysis, from the point of Latvian law.

**Ownership rights on intermediated securities under Latvian law**

Latvian Civil Law (Civillikums, 1937) does not recognise beneficial or trust ownership (Grasis, 2008), but however the relationship similar to the trusts are widely used in the financial sector. For example the concept of nominee account (nominālais konts) or account for holding of securities which belongs to the customer’s of intermediary are implemented throughout part 1 of the 130 of the Financial Instrument’s Market Law: “…The account in which the registered financial instruments are financial instruments held by a person shall be identified as a nominal account.” What is important, in this regard: When securities are held on nominal account the intermediary does not become the owner of the security, he is only its holder. It is important from the perspective of intermediated securities because this statement of the law clearly distinguish concept Latvian holding concept from the trust model of the holding. Moreover, securities are segregated from the own assets of the intermediary not only in the balance sheet of the intermediary, but in the accounts (nominal and own). It should be noted that the nominal accounts contain securities belonging to several investors at the same time and therefore the intermediary confirms the ownership to many investors in the quantitative proportion of the bundle of securities on the nominal account, proportionally to the number belonging to each investor.

Regarding ownership rights on securities the Financial Instrument Market Law avoids using the word “ownership”, the part 1 of the article 125 “Rights to the Financial instruments” states: “Financial instruments belong to the acquirer thereof from the moment they are registered in the financial instrument account of such acquirer.”, but later in the article is stated, that “.. entry in the financial instrument account of the person […] shall be a proof that financial instruments are owned by aforementioned person”. Therefore, it allows to conclude that the Latvian law:

(a) Recognizes the securities account owner either as owner of the securities registered in the account ether as holder of securities, assuming that securities are owned by the customers of the intermediary (end-investors).

(b) Entry is the proof that securities belong (are owned or held) to the account holder.

(c) The type of the account is the attribute which allows to identify status of the rights to securities (ownership or holding).

2 However, for the sake of clarity it should be noted that the concept of beneficial owners as persons who receive an economic benefit has been introduced into Latvian legislation in line with international anti-money laundering trends and subsequently incorporated into commercial law for the purpose of disclosing the beneficial owners of companies. However, civil law does not recognise the concept of beneficial ownership.

3 therefore it is not exclude possibility to open the account with other intermediary and separate individual assets of the customer
(d) Latvia belongs to the individual ownership model.

In other words, intermediary acting under Latvian law confirms ownership rights, but in reality, it is entitlement on the securities as it is implemented in the indirect holding concept existing in US law, because factual situation is the same: accounts, securities and segregation on nominal (omnibus) accounts for all investors, later the intermediary makes the book-entries on the individual accounts of each investor in own record keeping system. Investors has no rights to claim intermediary of their intermediary, and may bring their claim only directly to their intermediary, securities account provider.

The system of indirect holding of securities involves the use of a chain of intermediaries, each of whom has been delegated the right to confirm ownership of, or to inform about ownership of certain rights in securities. This delegation essentially derives from the right to open and maintain securities accounts in the ordinary course of the business and, as a consequence, to register securities on the account in book-entry form, thereby confirming the ownership of securities within the framework of the license granted by the supervisory authority. It should be noted that in accordance with article 3.4 “Law applicable to the Financial instruments” of the Law on the Markets of Financial Instruments the following general principle is applied “the law of such country shall be applied […] in which the operator of the relevant account […] has been registered.” The law registration of the intermediary applies to all activities of the last, including to the recognition of the investor’s ownership (legal status and belonging of financial instruments). Therefore Latvian law at the same article recognizes that in the chain of the intermediaries the laws of various jurisdictions shall be applied to the each level of the holding: “If financial instruments are kept with the intermediation of several operators of the accounts or registers of financial instruments, the law applicable to points of law in relation to such financial instruments shall be determined individually for each account or register of financial instruments in which such financial instruments have been recorded.”, but international private law applies on the higher tiers, on the tier of the Latvian account providers Latvian law will apply, and Latvian intermediary will attest the ownership rights of the end-investor on the securities. What it means? It means that in the situations when various intermediaries are involved in the chain, each of them will treat rights on securities under it local law and ownership holding system, for example as it is reflected in the figure 6, in result confirming clear ownership rights on securities while in other holding systems co-ownership rights or other types of rights are confirmed.

For the better understanding of the legal situation with ownerships rights under applicable law C (Latvian law), the ownership rights during all chain of the holding are analysed. Customer I2 is the bank registered in Latvia, which maintains an accounts for 3 customers, two of them are end-investors, but third Latvian broker, for whom nominal account is opened. Latvian Intermediary (Customer I2) and Latvian broker (Customer I3) confirms ownership rights on securities to the end investors, in accordance with the law of Latvia, as if Investors 4-6 would legal owners of securities, but in accordance with the law A Participant 1 is the legal owner of securities, all lower tiers hold beneficial equitable interest, and Participant 1, confirms to the Customer I1 only beneficial equitable interest in securities. Customer I1 holds 700 securities in the pull for
various customers. He confirms entitlement on the financial assets, not beneficial equitable interests in securities in accordance with own law B. The volume of rights confirmed by him to each investor is less, that the volume of rights confirmed to him by Participant 1.

![Central Securities Depository Diagram](image)

**Figure 6. Ownership rights in the intermediated holding**

*Source:* author’s illustrations

In other words, the nature of the rights which confirms Customer I3 (Latvian broker) to his customer investor 6 under analysed holding chain, as ownership rights is rights on pro rate securities entitlement on beneficial interests in securities. This is widely recognised principle of nemo *dat quod non habet* “one who has not cannot give” (Schwartz & Benjamin, 2002). When applying this principle to the intermediated securities, intermediary could not give or confirm more ownership rights that investor would have if he would on the upper tier of the securities holding chain.

In fact, the confirmation of ownership in the discourse of the Latvian Capital Markets law is a new legal fiction⁴, which is created to avoid digging deeper into the essence of the existing legal relationship. And with respect to such a fiction, securities sales transactions are concluded by transferring the rights as described above to the acquirer.

When new fiction is created, we are trying to use existing words, terminology, therefore the meaning and the essence of these words as in the case of the ownership rights confirmed by intermediary differs from the meaning and essence of the rights confirmed by another intermediary.

Contractual basis for the confirmation of the ownership rights exists in all systems, but in the case of the direct systems or direct individual account opened in central securities depositories, the ownership is

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⁴ An assumption that something tur even though it may be untrue […] (Bryan, 2011)
confirmed by direct account statements from central depository, and later reconfirmed by intermediary in a statement from relevant account. The basis for such reconfirmation is delegation powers contained in the contract with intermediary, but the primary confirmation is the statement issued by register (depository) where legal title is registered.

In the indirect system an ownership rights are confirmed on the contractual basis, all previous statements issued by other depositories or intermediaries is only initial source of data which declares existence of the rights of the certain types over securities, without actual knowledge of the investor, customer of intermediary. Intermediary when confirming ownership rights to the securities acts very similar as he would act when confirming amount of money on the account of its customer.

A customer, ultimate investor, is saying ‘I have money on my bank account’, and it is also a legal fiction, because but in reality, in the discourse of the law customer holds claims rights toward to the bank, and bank when making payments do it via various assignments to other banks in the chain of the intermediaries. When investor is saying ‘I have securities’, but in reality, he has no securities, investor has the complex structure of the rights related to the certain securities and to realization of the rights “flowing from these securities”. An investor saying, I have securities, because intermediary confirmed ownership on them: he made account entries which describes securities and theirs’s amount.

The question is: why in the first case it is claim rights but in another ownership rights, claim rights also is the type of the property? The answer is simple: (a) money is held in the balance of the bank and bank is legal owner, in case of securities intermediary is not the owner and securities are held out of the balance of the intermediary (bank). In fact, concept of ownership rights is used to distinct both legal situations: claim in relation of the property of the third person and claim in relation of own property. (b) The securities must have the legal owner as the second part of the publicly announced contract with issuer, and this legal ownership must be confirmed at least on one tier of the intermediation holding, especially if the chain of the holding is ideal, and it recognises only end-investor as legal owner.

If the chain is not “ideal”, the essence of rights passed to the acquirer can undergo a transformation in result of the transaction due to the changes in the chain of the holding and application of the different ownership model: if for example investor 6 sells securities to investor 1, who becomes the owner of beneficial interest over 250 securities. This situation occurs due absence of the uniform understanding and concept of securities ownership. One legal fiction (securities by itself) arises necessity to introduce other legal fiction whether by creating new ownership model (for example -securities entitlement model), or when trying to avoid creation of the new legal fiction (as individual ownership model), recognizing ownsheips in situations the volume of the underlying rights is narrower as it should be in situations of the standard ownership rights, thus creating new fiction of ownership. In reality, ownership rights on intermediated securities are reduced by the rights of intermediaries over securities in result of long chain of the holding. And this is the question of the intermediary risk involved to the chain of the holding.
CONCLUSION
Modern securities are issued in the book entry form. Record in the securities account of the investor is evidencing proprietary rights on securities, but by the nature it is not securities. The type of account is the additional attribute which allows to determine the status of the proprietary rights on securities entered in. There is no uniform approach to the understanding and confirmation of the ownership rights (legal title) on securities in the worlds. Various models are used.

Latvian law system stays on the position of the confirmation of the direct ownership rights on securities to the end-investors, i.e. direct ownership model is used. In result when operating with securities Latvian intermediaries confirms more rights to the investors than they hold in the intermediated securities, thus creating new legal fiction of the ownership on intermediated securities. When investors conclude acquiring or alienation transactions with securities they enter into transactions about this newly created fiction “ownership” on intermediated securities, to eliminate too complex descriptions of underlying rights and to simplify the description of the transaction, applying clear and understandable simple structures such as sale purchase and etc.

The intermediary risk as well as uncertainty of the ownership rights over securities will exist while the conceptual form of the securities will not be changed, for example on securities issued based upon DLT (Digital Ledgers Technology), when securities as digital code will be passed to the end-investor. Thus, the uncertainty of the ownership will not exist anymore. But this is the question of the near future.

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All authors have read and agreed to the published version of the manuscript.

Data Availability Statement:
The data presented in this study are available on request from the corresponding author.

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Conflict of interests
The authors declare no conflict of interest.
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About the authors

Tatjana JUKNA
Research interests: financial instruments, securities transactions, securities holding, investor protection, repo, securities law.
ORCID ID: https://orcid.org/0000-0001-5646-5454

Janis GRASIS
Dr.iur., dean and professor at Faculty of Law, Riga Stradiņš University. Doctor degree was received at the University of Latvia in 2008.
Research interests: international public and private law, financial law, trusts law and sustainable development.
ORCID ID: https://orcid.org/0000-0002-1394-9958

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