ShareSoc
UK Individual Shareholders Society

PO Box 62, Chislehurst, BR7 5YB
Phone: 020-8467-2686
Email: info@sharesoc.org
Web: www.sharesoc.org

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Press Release

ShareSoc Comments on the Kay Review Recommendations

ShareSoc welcomes many of the recommendations published today in the Kay Review of Equity Markets. Much of the analysis of the existing defects in the operation of the market and the returns obtained by investors is undoubtedly sound.

We particularly applaud Recommendation 17 which says "*The Government should explore the most cost effective means for individual investors to hold shares directly on an electronic register*". One of the key elements of our manifesto is that individual shareholders should be properly enfranchised and not be forced into nominee accounts which are fundamentally unsafe and which cause shareholders to lose their voting and information rights. We have campaigned long and hard on this very issue which is one of the major defects in the UK stock market (for example our e-petition on the subject for those who have not yet signed it is here: http://epetitions.direct.gov.uk/petitions/16769).

We hope the Government will take up this recommendation as soon as possible, despite the opposition that will no doubt arise from existing vested interests to keep the status quo.

Professor Kay has many helpful suggestions in addition to his seventeen main recommendations. We will be commenting more fully on the report at a later date, but here are a few initial thoughts.

1. We welcome the emphasis on improved "stewardship". However the practical implementation of an "investors' forum" looks exceedingly difficult to achieve. It may simply become another "club" for a few major institutions when the diversity and size of institutional investors in UK companies is enormous (and that's not even taking account of private shareholders). How are representatives to be selected for this forum and are its discussions going to be public or private? Will it create "insiders" and how can it hope to tackle the enormous number and range of issues that arise in public companies? There are many unanswered questions here. ShareSoc did suggest an alternative approach based on "shareholder committees" as used in Sweden but that has not been taken up.

2. The more extensive and open disclosure of costs (Recommendation 8) is surely a long overdue reform. Many people have come to realise that costs have grown too high in the UK market with excessive "intermediation" which is obviously a focus of Prof. Kay's work.

3. We also support his comments on directors' and asset managers' remuneration with a focus on long term performance, and rewards in a form other than cash.

4. We welcome the suggestion that the legal concept of fiduciary duty should be applied more widely (indeed we would like to see it applied to company directors).

5. Although Prof Kay suggests that asset managers should have more "concentrated" portfolios so as to provide more incentives to engagement, we are not clear how this could be enforced. Prof Kay seems to be against compulsion in all aspects of his report from his comments when presenting the report today.

6. It is disappointing to note the focus on large FTSE companies with little apparent attention paid to the needs or problems of smaller companies. We would have preferred to see this area covered in more than a trivial fashion although it seems that at 40,000 words the report is already longer than Prof Kay intended it should be.

In conclusion, this would appear to be the first step in possibly a rather long process to bring these recommendations into effect. We would like to see some urgency attached to many of these proposals so as to maintain the momentum for significant reform of company governance and market operation in the UK.

For further information, please contact:

Roger W. Lawson,
Chairman, ShareSoc
Telephone: 020-8467-2686
Email: info@sharesoc.org

Or Stan Grierson, ShareSoc, on
Telephone 01628-522514

The Final Report of the Kay Review can be found here: www.bis.gov.uk/kayreview

ShareSoc's submissions to the Kay Review are present here:
www.sharesoc.org/ShareSoc%20Kay%20Review%20Response.pdf and here:
www.sharesoc.org/ShareSoc%20Kay%20Review%20Response%202.pdf

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About the UK Individual Shareholders Society (ShareSoc)

ShareSoc represents and supports individual investors who invest in the UK stock markets (and who own as much as 30% of the shares in UK public companies in aggregate). We are a mutual association controlled by our members with "not-for-profit" articles and incorporated as a company limited by guarantee. The organisation is financed by member subscriptions, donations from supporters and by the services it provides to members. Associate Membership of ShareSoc is free and is open to everyone with an interest in stock market investment (go to www.sharesoc.org/membership.html to register). More information on ShareSoc can be obtained from our web site at www.sharesoc.org (our objects are fully defined on this page: www.sharesoc.org/objects.html).