United Kingdom Shareholders Association
EU Transparency Directive and UK Listing Rules

The Financial Services Authority (FSA) has just undertaken a consultation exercise with market practitioners and investors with two objectives in mind. First was to determine what changes should be made to UK stock market listing requirements in order to align them with the EU Transparency Directive. The main areas to be considered were the periodic dissemination of information by companies to shareholders and the markets. The second objective was to review disclosure requirements for 'investment entities' (also termed investment vehicles) with the aim of establishing a common regime for all types. A Submission was made by UKSA's Legislative and Regulatory Group. The Group supported many of the proposals contained in the FSA's Consultation Paper (CP06/04), but disagreed on some important issues.

UKSA's Submission began by highlighting the Association's position as an advocate of investors who invested directly in the securities markets, although an interest in investment vehicles, such as investment trusts, managed funds and venture capital trusts (VCTs) was also acknowledged. The point was made that the main differences between private and institutional investors as regards the Consultation arose from the ease of access to information and the time available to process it. There was a preference for clearly identifiable sources of information, consolidation of that information in the form of interim and annual reports and an avoidance of additional cost. UKSA also had to take into account that there were still a significant number of members who preferred hard as opposed to electronic copy formats.

The FSA proposed two major changes in the way that company results were disseminated to shareholders. Firstly, it proposed that the stock market listing requirement that interim reports be distributed to shareholders in hard copy form should be dropped. UKSA argued that not all private shareholders were IT enabled and that many still preferred hard copy. Secondly, there was the proposal that the obligation to produce preliminary statements within 120 days of the year end be dropped, as a result of the Directive's own requirement that the full Annual Report & Accounts be published within 120 days. UKSA argued that the Preliminary Statement had become of more importance in recent years as the Annual Report had become more unwieldy. The Preliminary Statement already had a greater market impact, given its chronological priority, an importance that was likely to be enhanced by the new Companies Act, which would encourage the distribution of screen based information.

Another contentious issue was the proposal to abandon the mandatory publication of earnings per share in a summary financial statement on the grounds that this could be obtained from other sources. UKSA opposed this move on the grounds that its absence would allow other measures of company performance to be given undue prominence. (UKSA, however, does share the concern felt by many about the usefulness of basic earnings per share under IFRS and the growth of judgemental 'adjusted' earnings per share data).

There were a number of proposals intended to lighten the regulatory burden on companies, but bringing disadvantages to smaller shareholders, because the latter lacked the time or facilities to continuously monitor their holdings. There was, for instance, the proposal to remove the need to show directors' interests in the Annual Report on the grounds that this information could be obtained from share registers and notices of share transactions. Likewise, another proposal was to drop the requirement to disclose purchases of a company's own shares in the Annual Report. UKSA opposed those moves.

The FSA was interested in hearing the views of private shareholders on its proposals for investment entities. Its most radical proposal was to adopt a 'principles' based approach to achieving a satisfactory level of portfolio risk diversification, thus enabling the use of modern investment management techniques and financial instruments. UKSA supported

this initiative, subject to there being no question of the new regime implicitly sanctioning a move towards riskier investment strategies in general. UKSA was also concerned to ensure that the requirement to give details of fund holdings on a regular basis continued to be mandatory. UKSA argued that private shareholders were unlikely to have alternative sources of information other than the management, were in any case likely to invest in 'plain vanilla' vehicles and had little appetite for sophisticated analyses of portfolio risk.

Finally, the FSA proposed giving existing venture capital trusts a period of grace of eighteen months in which to adopt the rules governing the independence of directors. UKSA's experience in this field to date led it to believe that there was a strong case for all VCTs having independent directors and that the period of grace should be no longer than a year.

The FSA is now studying the submissions submitted by UKSA and other interested parties and will be making its decisions known in due course. The Directive is scheduled for implementation by January 2007.

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