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by e-mail kayreview@bis.gsi.gov.uk

The Kay Review
Department for Business, Innovation and Skills
Spur 2, Floor 3
1 Victoria Street
London SW1H 0ET

Dear Sirs,

Introduction

This submission is made on behalf of UKSA, the leading organisation representing individual private shareholders. Membership is by subscription which is our only source of funds but, while concentrating on the interests of shareholders, we endeavour to take into account the interests of investors and savers generally.

We welcome the emphasis in the Review paper on submissions of evidence rather than opinion. However, the class of investors particularly damaged by the structural faults in equity markets – i.e. Non-institutional investors – does not have the money or the organisation to collect significant data. What UKSA does have is a body of members who can provide anecdotal evidence that is relevant itself and might also justify a formal study to see if the particular translates into the general. We also point out that our manifesto (see below) is based on the direct personal experience of many private investors, thus representing collective evidence which should be treated as such.

The call for evidence suggests ten questions. These are generally couched in terms of institutional investors, but the paper also gives encouragement to respondents not to feel limited to these questions. We have therefore interpreted them in the context of private investors.

Our response rests on an analysis of the conditions of equity markets as developed by us in late 2009 to support our new manifesto. The latter was published at that time as the conclusion to '*Responsible Investing – for the Individual and for Society*', published by UKSA in

January 2010. A key section, '*Conflicts of Interest: Institutions – Owners or Businesses'* is attached as Appendix 5. The full text is at www.uksa.org.uk/ri2010.pdf .
The key to our response lies in six assertions made here about the operation of equity markets in the UK (developed further in '*Responsible Investing'*). After listing these, we give evidence in support of the assertions, followed by brief answers to the questions based on those assertions and some suggested ways forward.

Our response includes four anecdotal appendices:

- Appendix 1: An example of the powerlessness of the knowledgeable beneficial owner as exemplified by the conduct of the Lloyds EGM in November 2008.
- Appendix 2: An example of the damage done to the rights of beneficial owners by legislation that rests on an assumption that shareholders and beneficial owners are equivalent.
- Appendix 3: An example of the practical benefits of a Private Shareholders' Committee voluntarily operated in a successful small company.
- Appendix 4: A note on the methods of provision of individual shareholder rights in the USA and Australia.

Assertions about equity markets

The operation of equity markets in the UK suffers from the following basic structural flaws:

A. Most shareholders are not beneficial owners
B. Most beneficial owners are not shareholders
C. Non-owning shareholders (including nominees, tracker funds, funds benchmarked against an index and borrowers of stock) do not have any incentive to act like owners and may have a disincentive to do so
D. There are some shareholders with incentives that could be actively damaging to companies, particularly where conflicts of interest exist – which sometimes includes a company's own directors
E. Most Government regulation is directed to the efficiency of the trading of shares instead of the preservation of the ownership rights that those shares should represent.
F. Most regulatory logic and most interpretation of the Law fail to distinguish between shareholders and beneficial owners.

Evidence in support of assertions:

A:Most shareholders are not beneficial owners
B:Most beneficial owners are not shareholders

In this connection you will be aware that the Official Statistics indicate that only 10% of UK shares are now in direct private ownership. However, Richard Jenkinson of Junction RDS asserts that this percentage is well below the true figure and we understand that the FRC are taking this sufficiently seriously to have it investigated to see if his results can be validated. Even if Mr Jenkinson is right, the big reduction in private ownership should be a matter of concern. We believe greater private share ownership could aid business by giving companies more direct contact with the true beneficial owners. Other benefits would be (a) increased private saving offsetting the reduction in employer pension fund provision, (b) greater understanding by those holding shares directly of where the wealth of the country comes from, and (c) elimination of some of the rents which the financial sector extracts from managing funds on behalf of others

The following are a few key issues affecting private shareholders:.

- Shares in ISAs and SIPPs are prevented from being 'on register', despite this being a savings mechanism encouraged through tax breaks.
- Investors holding shares through nominee accounts are disenfranchised.
- The only means of holding shares electronically on the register in the investor's own name is if he becomes a personal member of Crest via a broker, which is a service provided only by a few and not available for ISAs and SIPPs.
- Some nominee account providers offer to vote nominee holdings on the instructions of the individual: but there is no check that this has been done and an investor has no legal right of action to force compliance.
- The Companies Act 2006 includes a provision (S145) which allows companies to change their Articles as an enabling act to allow brokers who choose to do so to transfer to the investor all or any of the broker-shareholder's rights in relation to the company. Unfortunately this provision is a dead letter as no company has made such a change in its Articles, and anyway S145 specifically denies rights enforceable against the company by anyone except the shareholder

C: Non-owning shareholders (including nominees, tracker funds, funds benchmarked against an index and borrowers of stock) do not have any incentive to act like owners. and may have a disincentive to do so.

We draw attention to the following:

- Walker Review, paragraphs 5.16/5.18

- According to a 2007 research report by the University of Exeter Business School, fund managers who advertise a capability in responsible investment seemed to value the time they spent talking to company directors mostly for the investment information they gleaned, which was seen as more than twice as important on average as communicating to gain influence or secure change.

D: There are some shareholders with incentives that could be actively damaging to companies, particularly where conflicts of interest exist – which sometimes includes a company's own directors

3 Members of UKSA have personal experience of FTSE companies being pressured by influential institutional investors to gear up through share buy-backs despite that being inconsistent with the financing needed to meet the companies' long-term objectives.

E: Most Government regulation is directed to the efficiency of the trading of shares instead of the preservation of the ownership rights that those shares should represent.

The evidence is in the regulations. For evidence of the mindset that has led to this we offer the following footnote to an FSA discussion document on short-selling – *DP09/1* (February 2009), footnote to page 3 of Annex 2:

"*Stock lending can be undertaken for many reasons: (A) Clients may borrow stock to cover short positions……….; (B) Clients may also borrow stock to be able to influence voting and other corporate action events (as legal title passes to the borrower); (C) Firms use stock lending to facilitate their sometimes complex trading and investment strategies…………; (D) Lenders clearly lend to increase returns via the charge of fees*"

The relevant point here is not that these practices occur: it is that in a 74-page document from the regulator on short selling, it is the only reference to voting, whereas the corruption of the voting process it describes was not considered worthy of any comment.

F: Most regulatory logic and most interpretation of the Law fail to distinguish between shareholders and beneficial owners.

- For a specific example of the Law not being applied as the drafters intended, see Appendix 2.

- For other examples, see any number of official discussion papers, governance codes and guidance notes, the most recent to come to our notice being the BIS discussion paper on Executive Remuneration (September 2011).

Brief answers to questions

Q1: *Whether the timescales considered by boards and senior management in evaluating corporate risks and opportunities, and by institutional shareholders and asset managers in making investment and governance decisions, match the time horizons of the underlying beneficiaries.*

We answer this question as representing 'underlying beneficiaries'. Our private shareholder members are, by their nature, overwhelmingly buy-and-hold investors. In our experience – see Appendix 5 – we are not convinced that many institutional shareholders and asset managers think the same way.

The experience of those of our members who are pension fund trustees is that the trustees generally take a long term view of investments but the outside managers they retain exercise shorter term judgements. Trustees cannot spend governance time on individual companies but have to rely on their managers.

It is apparent from the many meetings that we arrange between our members and the directors of public companies (including those in the FTSE 100) that the directors find the long-term emphasis of the questions our members ask as more pertinent to their businesses than those they get during presentations to institutional investors and City analysts.

One illustration of the difference between individuals and asset managers comes from the Chairman of one of the largest investment trusts who said recently that it is the wealth managers who are concerned about the volatility of the discount whereas it does not bother the private shareholders. In other words the wealth managers are much more concerned about the short term than private individuals and the pressure from the former has contributed to the trust pursuing discount management.

We also draw attention to the response which Sir Michael Darrington, one of our members, has submitted personally to you based on his own experience.

Q2: *How to ensure that shareholders and their agents give sufficient emphasis to the underlying competitive strengths of the individual companies in which they invest.*
Long term beneficial owners do not need incentives – only a removal of the obstacles that prevent them voting their interest. Short term holders cannot be forced to do something that is of no interest to them.

Q3: *Whether the current functioning of equity markets gives sufficient encouragement to boards to focus on the long term development of their business.*
Equity markets are geared to trading, a short-term activity. The Financial Times and no doubt other journals have reported the phenomenal increase (thousands of percent) in stock exchange transactions over recent decades, representing vastly greater churn of shares without obvious benefit to share issuing companies.

Q4 *Whether Government policies directly relevant to individual quoted companies (such as regulation and procurement) sufficiently encourage boards to focus on the long term development of their businesses.*
No comment at this time.

Q5: *Whether Government policies directly relevant to institutional shareholders and fund managers promote long-term time horizons and effective collective engagement.*
Government policies relevant to institutional shareholders and fund managers have focussed almost entirely on the conduct of markets. For policies on 'engagement' see Q8

Q6: *Whether the current legal duties and responsibilities of asset owners and fund managers, and the fee and pay structures in the investment chain, are consistent with corporate long-term objectives*.
In general, not so much 'consistent with' as irrelevant to long-term objectives There are certain drivers that apply to certain institutional shareholders that are actively antithetical to corporate long term objectives (See Appendix 5: 'Free riding' and 'Profit drivers of the financial services industry' but also the Walker Review (November 2009) paragraphs 5.16/5.18)

Q7: *Whether there is sufficient transparency in the activities of fund managers, clients and their advisors, and companies themselves, and in the relationships between them.*
No comment at this time.

Q8: *The quality of engagement between institutional investors and fund managers and UK quoted companies, and the importance attached to such engagement, building on the success of the Stewardship Code.*

We are not familiar with the evidence for the "success" of the Stewardship Code but consider that the disincentives to engagement described in the Walker Review, as mentioned under Q6, will persist and will continue to be an inhibiting factor.

Q9: *The impact of greater fragmentation and internationalisation of UK share ownership, and other developments in global equity markets, on the quality of engagement between shareholders and quoted companies.*
No comment at this time.

Q10: *Likely trends in international investment and in the international regulatory framework, and their possible long term impact on UK equity markets and UK business.*
No comment

Some ways forward

Although the review is a call for evidence we offer a few suggestions*:*

- Any corrections in weaknesses of the governance chain are going to need to distinguish between different types of shareholder. We suggest that a working party should be set up to define the specification of such a system, but draw attention to UKSA director Eric Chalker's letter in the Financial Times on 29.8.11 calling for private shareholders to be treated as a separate class with parallel rights to others.

- No regulatory body has responsibility for the governance chain. The three operational objectives of the Financial Conduct Authority are: securing an appropriate degree of protection for consumers; promoting efficiency and choice in the market for financial services; and protecting and enhancing the integrity of the UK financial system. UKSA believes that maintaining an appropriate chain of governance should be an explicit objective – the subject is not mentioned in any of the discussion documents promoting the role of the new Authority. We do however note and welcome the fact that the thrust of currently proposed EU financial regulation is for the rights of beneficial owners to be sacrosanct.

- Actively encourage the use of Private Shareholders' Committees on a voluntary basis to connect companies with their beneficial owners.

- Amend Part 26 of the Companies Act 2006 (see Appendix 2).

Appendix 1

Lloyds Bank – the takeover of HBOS, the EGM and the devastating impact on shareholders
In writing this note we have the benefit of the advice of a member who was Head of Corporate Banking at Lloyds Bank from 1991 to 2004 having previously been General Manager, Asia.

In the last decades of the 20th century Lloyds Bank was highly successful and had been an extremely good investment for its shareholders. The creation of shareholder value had been established as a No. 1 corporate objective. Among other factors, the acquisition of the TSB in 1995 and the Cheltenham and Gloucester Building society in 1994 had been hugely beneficial. The acquisition of Scottish Widows in 2001 was less satisfactory leading to some decline in the share price but certainly not disastrous.

However, the acquisition of HBOS in December 2008 led to the almost total collapse of the share price and the suspension of the dividend, a situation which continues today. This deal was negotiated at a time of acute distress in financial markets. Lloyds TSB, then one of a handful of Triple A rated financial institutions globally, acquired HBOS which was illiquid and, as it turned out, insolvent, to help the UK authorities stabilise the financial markets. Northern Rock and RBS had already failed and been nationalised. It was decided that the balance sheet of UK Plc could not stand the enormous liabilities of a nationalised HBOS.

The deal seems to have been set up between Gordon Brown (then Prime Minister) and the Chairman, Sir Victor Blank, at a dinner and the government then waived competition rules and allowed LTSB to acquire HBOS, thereby creating Britain's largest financial institution.
The formal proposal for the acquisition was put to Lloyds TSB's shareholders at an EGM in Glasgow on November 19 2008. Our member tells us that the proceedings were dominated by approximately 25 individual shareholders who were unanimous in their condemnation of the acquisition of HBOS. No one spoke in favour of it. The parlous state of the Bank of Scotland's corporate loan book was pointed out. No institutional shareholders spoke. The Chairman and the Chief Executive dismissed concerns and assured the meeting that the acquisition was in the best interests of LTSB's shareholders and, indeed, that it presented a "once in a lifetime" opportunity to build a dominant position in the UK Financial Services market place. They appeared to be completely oblivious to the parlous state of the Bank of Scotland.

When the meeting voted, the acquisition was approved by a huge majority (based entirely on proxy votes) 95% to 5%. It appears that the institutions voted in favour by and large because they had shareholdings in both LTSB and HBOS and concluded that an investment in the merged entity would create more value than LTSB continuing alone and HBOS going under.

It has been admitted since that there was insufficient due diligence but there is no sign that the non-executive directors, some of whom must surely have had a very good idea of the parlous state of HBOS, took a proper role. There can be little doubt that the interests of

LTSB's shareholders have been totally ignored throughout, likewise the specific substantial and legitimate concerns raised by well- informed individual shareholders.

Appendix 2

Takeovers by schemes of arrangement

This section is written by an UKSA director about his direct personal experience in the High Court. The subject is use of CA2006 Part 26 to effect company takeovers, a practice which the writer believes borders on, and perhaps is, scandalous.

It must be questioned whether Parliament knew what it was doing when the 1985 Act provision was introduced or later reproduced in 2006, but it enables the compulsory purchase of shares by a minority of shareholders in what - in this writer's own limited experience - has been a number of questionable circumstances. I'm quoting just one instance - that of the takeover by Laxey Partners of TDG plc in 2008, which the writer himself challenged in the High Court, principally on the basis that only 21% of the free equity had been voted (this figure from memory).

The writer's own TDG shares were held in a personal Crest account, but other shares for which he was responsible were held by a leading nominee account provider whose terms and conditions precluded their clients from even knowing of the proposed takeover. The judge declared that the investors themselves had no legal standing in the matter and ruled, based on precedent, that no minimum participation in the vote was required, so the writer's objection failed. It must be presumed, as he did, that many nominee account providers simply ignored the whole matter.

For takeovers other than by schemes of arrangement, an acquirer must obtain 90% of the shares on a voluntary basis before compulsory acquisition of the rest. Under a scheme of arrangement however, 100% of the shares can be acquired if 75% of those voting vote in favour - regardless of the percentage participation in that vote.

Nominee account providers are intermediaries (empowered by law in the case of ISAs and SIPPs) who have no legal responsibility, thus denying savers ownership rights over their investments and creating a (growing) vacuum between company directors and their investors.

In the case of TDG, the directors had turned down a higher offer from the same acquirer in the previous year, had since and quite recently produced an interim report which declared the company to be well on track and gave no cogent reason why its shareholders should vote to give up what was a quite satisfactory dividend.

At the very least, the practice of stitching up a deal between a company's directors, the acquirer (often private equity) and a small group of institutional investors should be subjected to public debate. In the view of UKSA, the practice is inimical to investor-driven long term company performance and should be subjected, one way or another, to the same 90%

shareholder approval as any other takeover, with nominee account providers obliged to facilitate this and not act on their own account.

Appendix 3 - Beneficial owners in action
– a real-life example of a shareholders' advisory group reported by one of our members

BrainJuicer is a highly innovative company founded in 1999 with a very distinctive way of going about market research. The aim to show that market research could be done more effectively than in the traditional way drove the founder to start the company in the first place.

By 2006 the Company had obtained a quotation on the AIM market but when, in early 2008, some ex-employees wish to sell their shares, the size of the market was too small for them to do this at anything like the current price. Consequently the Chief Executive (John Kearon) and finance director (James Geddes) presented the business to a limited number of private investors of which a number signed up for part of the placing at the then normal market price.

Following the placing, a small number of shareholders were so impressed with the company and the potential for its products that they started a discussion with John Kearon with suggestions for the business. They were invited to a conference that BrainJuicer held on the future of market research to which, unusually, competitors were invited as well as customers. Subsequent to this, John Kearon decided to set up an unofficial advisory group consisting of outside shareholders, to meet for a few hours two or three times a year, at which he could set out the current strategic thinking and expose it to challenge. They were, of course, subject to the rules relating to insider trading and had to agree to certain restrictions on dealing before the first meeting took place. Two of the members of the advisory group are in the finance sector and the others are long standing connections of John Kearon from within the advertising or marketing world.

Among the many things that have been discussed - a few where the group has made an impact - are:

1. The decision that a highly successful Client Director should move to the idea-generation team full-time despite the impact on sales performance. Previously, idea-generation was small and informal with members contributing in addition to their main responsibilities. The individual concerned is now a regular speaker at industry conferences and he and his team have won many industry awards for innovation. Moreover there is much less reliance on one man for ideas.
2. Argued against the acquisition of an existing small agency in a country where BrainJuicer did not have a presence. In the event, BrainJuicer has started its own office in the region, beginning small and growing slowly.

Encouraging the company to involve the whole team in its adoption of growth targets, and to prepare for the problems of growth as well as the benefits.The secrets of success of the advisory group have been:

a) Having a group able to understand and challenge the business model, with the ability to think like owners as well as having a mix of relevant experiences and skills.

b) Having the meetings in a style and atmosphere which encourages creative interaction.
c) Having a company which welcomes constructive criticism, taking it in good part and having the confidence to admit that they don't know everything and are prepared to learn from their mistakes.
If it would help we can provide a great deal more detail on this company's history or put the review team in touch with the directors.

Appendix 4:
Private shareholder rights in the USA and Australia

The following paragraph is a note by an UKSA member with experience of investing in the US:

"*When I was posted to the US in 1988 I bought US shares through what would now be called a telephone broker. Some of those shares I still own. I returned to the UK in 1996 and my account has mutated to an execution-only online account. Without any intervention on my part whatsoever (except presumably to supply the broker with my change of address and my email address) I receive hard copy annual reports (with online option), invitations to the AGM and electronic proxy voting instructions. If I fail to vote I am sent a reminder by email. "*

We, UKSA, have followed this up and have come to the conclusion that, although the USA system works for our member, the underlying arrangements are the cause of many problems. Accordingly it follows that we do not think the USA system should in any way be taken as a model to adopt in this country.

On the other hand, the Australians appear to have achieved all that we are looking for in this country with a much more satisfactory system. A private shareholder there tells us that for him the system works similarly to that in the USA and he is amazed that the UK situation is allowed to persist. The following summarises what we have learnt after following this up:

"It is pretty clear that holding shares in individual companies by private individuals is more widespread in Australia than here. The climate is illustrated by looking at the website of the Australian Stock Exchange where there is a variety of leaflets on offer and educational courses taking one through key aspects of owning shares as well as CFDs, warrants and options.

Dematerialisation is effectively complete in Australia. Paper share certificates were phased out in 1998 and ownership is now recorded electronically. All trades are done through the CHESS system which appears to be the equivalent of CREST here. Shares can be held directly on the issuer's sub-register or on a Broker Sponsored register which facilitates trades via the broker and, we presume, allows on-line trading. The key words in all this are: "The principal register for any particular company is made up of the combined holdings registered on both the CHESS subregister and the Issuer Sponsored subregister." It follows that even though you hold your shares through your broker you are still on the Company's register and you get all your voting and other rights. Also where shares are held by a custodian the legislation requires the custodian to contact all the beneficial owners and ask them what they want to do."

Appendix 5: Extract from 'Responsible Investing – for the Individual and for Society' (published by UKSA January 2010)

Part 2 Section 5:

Conflicts of Interest: Institutions - Owners or Businesses?

Paragraphs 5.17-20 of the Walker Review interim report set out very clearly some of the obstacles to active governance by institutional investors. These include:

- agency problems, particularly where the financial imperatives of the institution may be in conflict with what is best for the company;
- the cost of governance;
- 'free-riding' by less scrupulous institutions on the governance efforts of others;
- the irrelevance of individual corporate performance to funds benchmarked against an index; fear of adverse publicity;
- fear that confrontation will restrict subsequent access to the company; and
- concern that voting against management could cause a fall in the share price and be seen as a breach of fiduciary duty.

Now that these problems are on the official public record they cannot be ignored. It has been formally acknowledged that institutional shareholders as a class cannot be relied upon to contribute to better governance.

Good governance costs money

For institutional investors to contribute to good governance pro-actively, they must employ clever and determined (therefore expensive) people to spend time getting to grips with each company's strategy, engage with each company's management and, if necessary, apply pressure to create change. To be worth doing, there must be a payoff to those institutions which do it. For most institutions there is not.

For example, nominee companies – institutions that hold shares on behalf of individuals investing in ISAs, SIPPS, and other non-certificated brokerage accounts - are just bystanders. So are the managers of index funds, exchange traded funds and other program-driven funds. They won't spend money on governance. Indeed it would be irresponsible of them to do so: they would have expense ratios worse than their competitors and their clients would have inferior returns. This matters because of the way that the performance of funds is measured.

Fund performance measurement

Tony Golding, a retired investment banker, puts it well in his book 'The City: Inside the Great Expectations Machine': *"Institutional investors inhabit a relative world."* So, trackers and index funds aim to *match* a benchmark, most other funds aim to *beat* a benchmark and all funds aim to beat others in the same market sector.

If an index constituent such as Vodafone is held in your fund (as it will be), an improved Vodafone performance will benefit your fund. But it will equally benefit the index, because a rising tide lifts all boats. There is no point in spending money on getting the tide to rise when your performance is measured solely by how far you float *above* the water.

Free riding

Alternatively, let us suppose that you are a manager of the virtuous Pickwick Fund, who has determined to be an activist investor. You spend, say, 1% of your funds under management on governance, which you charge to the fund. The companies do well, helped by your benign influence, so your governance money has been well spent. However, down the road is your competitor who manages the Scrooge Fund. He spends no money on governance, yet he invests in many of the same companies that you do. So the Scrooge Fund will also have done well. *What is more, his costs will be 1% lower than yours.* So not only will his historical performance be 1% better, but his published TER (total expense ratio) will be a whole one percentage point better. Scrooge has had a *free ride* on your governance work. Since both historical performance and TER are key data for selling funds to new investors, Scrooge has built a competitive advantage out of Pickwick's well-intentioned governance efforts.

Actually it is worse than this. There are better ways – not only for you but for your clients also - of profiting from your governance efforts, which is to buy or sell the shares depending on what you have found. Why put the facts into the market through inevitably slow and public attempts to create beneficial change where previously you had an information advantage?

These are the dismal realities, to which the official response is to seek more ‘engagement’.

Engagement is not Governance

The Walker Review and many other authorities refer to institutional shareholder ‘engagement’. This is reasonable shorthand for *‘engagement for the purposes of active governance’*. But much shareholder ‘engagement’ is not for that purpose. Perfectly reasonably (in a market-driven society) it is to serve the interests of the institution. Those interests are only rarely aligned with corporate performance. What institutions want above all else is information on the one hand and, on the other, a relationship that will lead to some special benefit (for example an investment banking mandate where this is within the institution’s scope).

These conclusions on the inevitable ineffectiveness of institutional engagement are intuitively obvious. Unsurprisingly, they are supported by an academic study of the University of Exeter Business School, which found that, *“…fund managers who advertise a capability in responsible investment seemed to value the time they spent talking to company directors mostly for the investment information they gleaned. This was seen as more than twice as important on average as communicating to gain influence or effect change.”*

Profit drivers of the financial services industry

Shareholders who do not vote and do not care would not matter very much if that left control of enterprises in the hands of those who did. But diversified financial institutions have other activities that conflict with the objectives of those trying to run businesses well:

- Private equity funds make most money from buying companies that they can improve – i.e. ones that are poorly managed and inefficient users of capital.
- The investment banking businesses of debt and equity funding, ‘corporate actions’(i.e. acquisitions and disposals) and general corporate advice do not make much money from well-run companies that grow organically by building on their internal strengths. But they make a lot of money from companies that grow too quickly in areas they do not fully understand.
- Investment funds, and the buy-side analysts that feed them, need an informational or analytical edge. They are less likely to get this from a well-managed company in a well-understood business that communicates clearly with shareholders.
- Stockbrokers only make money when clients trade.
- Any trading business needs volatility to generate trading opportunities. Equity tradinneeds equity volatility. Equity volatility follows from taking on risk. This is easily achieved by ‘exciting’ forays into uncharted waters and by high leverage. It is not achieved by well-judged business development and prudent leverage within a coherent and comprehensible long-term plan.
- Institutional managers in all parts of the business, including those administering nominee companies or passive index funds, are aware of the group profits that may enhance their personal bonuses and share options.

All this adds up. In fact it adds up to an astonishing £2.2 trillion of assets in the UK quoted sector potentially misdirected to benefit a selected constituency of shareholders.

No process or regulation exists to resolve these conflicts, so something more fundamental is needed.