

UKSA Calls for Action by the Financial Reporting Council to improve the lot of private investors

The UK Shareholders' Association (UKSA) has formally responded to the Financial Reporting Council's (FRC's) consultation on its proposed priorities for 2015/16. UKSA is broadly supportive of the FRC's proposed priorities, but has drawn attention to three matters of specific concern to private investors, where the Association sees the need for specific action. The headings below are taken from the [FRC's consultation document](#)

High quality corporate governance

In seeking to influence development of the Shareholder Rights Directive, the FRC should be aware that, without a change in terminology, improving or granting more shareholder rights will have no effect at all on the fifty per cent or more of this country's private investors who find themselves, not always by choice, in broker-provided pooled nominee accounts. This is because, uniquely in the UK, the law does not recognise such investors as shareholders and they are consequently not entitled to any shareholder rights, only to subsidiary rights provided by the stockbroker, these often being limited to beneficial rights, namely dividends (for which they may be charged a fee) and the sale value of the shares.

The FRC should have a direct interest in securing the enfranchisement of these would-be share owners, in the interest of improving corporate governance and investor stewardship, because those deprived of an automatic right to information, the right to be heard and the right to vote, have no influence. Yet, by definition, these are investors with their own wealth at stake and there is no more powerful incentive to ensure that corporations to which it has been entrusted are acting appropriately for the owners' benefit.

The Shareholder Rights Directive must be amended to extend to what are often described as 'end investors' the full rights intended for those described in the draft directive as 'shareholders', in order to make the Directive as applicable in the UK as it is expected to be in other member states.

High quality corporate reporting

In seeking to improve the quality of corporate reporting, the FRC should add to its desire that it should be "fair, balanced and understandable" the objective of visual clarity, because far too many company reports are produced with fancy designs and small print that make readability too difficult, whether on screen, printed at home or printed professionally.

Annual reports should be published primarily for the benefit of a company's owners – its members, not for potential customers of the business or to look good when displayed in the board room or reception area. Pictures should not be given precedence over text and all text should be readable without difficulty but especially in the narrative sections of reports. Nothing is more readable than black print on white paper, so proposed departures from this standard should be examined critically by directors before authorising them.

When private investors are repeatedly urged to save the planet by reading reports on screen, or by printing reports at home, they cannot escape wondering why so much effort and expense is thought to be justified in making reports difficult to read on screen (columns are particularly unfriendly) and full of expensive-to-print-domestically coloured content which does little if anything to improve understanding of how the directors have managed the business.

High quality audit and confidence in its value

In seeking to improve investor confidence in auditors (which has a long way to go for private investors), the FRC should press for the reintroduction of an automatic auditor's representative to be present at AGMs and insist on a readiness to answer members' questions which is often lacking. The introduction of some emphasis on the work of audit committees has been helpful, but, despite appearances to the contrary, auditors are appointed by and paid for by the members so should not seek to hide behind the directors whose conduct of affairs they are supposed to oversee.

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