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Response to HMT Prospectus Regime Review

We write in response to your consultation on the UK Prospectus Regime. We make no comments on the detailed questions, but rather make a single fundamental proposal for opening new opportunities for the prospectus regime. We have seen the response of Sharesoc, and support their submission as a whole.

We particularly welcome the first of your four key objectives as stated in the Ministerial Foreword: *'We want to facilitate wider participation in the ownership of public companies, and to remove the disincentives that currently exist for the issuance of securities to wide groups of investors – including retail investors. Doing so will allow a broader cross-section of society to benefit from their growth. It will also enable companies themselves to access a broader investor base, as well as improve market functioning overall by increasing the liquidity of markets.'*

This may be the first time that such an objective (which UKSA has been promoting for many years) has been recognised. We have a proposal that is a necessary condition for progress and addresses a number of other issues.

It is many years since most individual holdings of company shares were registered with the company's registrar. Companies met all the costs of communicating with individual shareholders, and there was often a material physical attendance and participation in company meetings. Today, the situation is quite different, with fewer shares in the hands of individuals and with many shareholdings hidden behind nominees. This has led to what Lord Paul Myners has called the "ownerless corporation".

Companies today largely do not know who their beneficial owners are. They therefore cannot communicate with them. We recognise the enormous benefits that have accrued from

intermediation but it has come at a cost in stakeholder democracy. True communication is a dialogue and intermediation typically prevents a dialogue.

We refer here only to beneficial owners who have chosen to buy holdings in individual companies, not those participating through pooled vehicles.

However, modern technology provides solutions. A broker, for example, must have available, at any time, a data set comprising its retail clients and their shareholdings held in nominee. Otherwise it could not function with any safety. We propose a technical working party to:

1. Establish a format and process for making these data sets available for further processing.
2. Establish a format and process for consolidating these data sets into shareholder lists sorted by company.
3. Establish a process to make individual company segments of these combined data sets available for use by the company concerned.

We recognise that a number of practical decisions need to be made that need further consultation once technical feasibility and cost has been established. These include:

1. Update frequency (we suggest daily).
2. Broker and other intermediary participation (we suggest voluntary, but with incentives to do so – e.g. ability to use a descriptive adjective such as ‘authorised’).
3. Company participation (we suggest voluntary initially, with periodic extension to compulsory depending on size and jurisdiction).
4. Embedding in law.

This proposal will allow companies once again to take on the responsibility and to meet the costs of communicating with their beneficial owners, and should involve intermediaries in minimal costs, once the processes have been set up. We have released this submission to the press and would welcome the opportunity to discuss it with you further.

Yours sincerely

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