UK Shareholders' Association

The Private Investor Issue 173 · November 2014

A Message from the Chairman

John Hunter

This note will repeat some items from my emailed letters. I make no apology for this. My letters from those of you not on the web have taught me how important The Private Investor is to you and I am keen that you do not miss out on the news. Also I can assure you that printed copy of our magazine will continue to be mailed to all who opt for it.

On the people front, I have persuaded Martin White to rejoin the Board. Martin has been an UKSA member since around 1993 and is a past UKSA Chairman. He works as an actuary for a general insurer and also has experience of life and pensions. His legendary enthusiasm and passion for change will be focused on exposing the fundamental flaws in the system, and the consequences for the governance of companies and the investment education of individuals. Andrew Girvan, who does so much for the London & South East Region (LSER), has decided to step down as Minutes Secretary to the Board and Rob McDonald has agreed to replace him. Whether or not that will be permanent depends on negotiations currently in progress between Rob, his wife and me on the future dates of meetings. (Saturdays are sacrosanct in the McDonald household, as they used to be in mine.)

The London Investor Show was a great success for UKSA. Our stand was organized and staffed, by a dedicated band of volunteers from LSER. The talks of both Malcolm Howard and Eric Chalker were well received and a number of new members joined as a result. I was unfortunately abroad but next year's event is in my diary - and should be in yours too (23rd October 2015).

In October I went to a meeting of the Croydon branch to hear a fascinating talk on banking from Richard Meddings – recently resigned as CFO of Standard Chartered. Richard assured us that the talk he gave was similar to the one he had delivered to George Osborne after which the Chancellor commented that it was the first time he felt he really understood banking (which would have put him in a minority of one, I suspect). Richard's presence, secured at the invitation of Phil Clarke, shows how volunteer initiatives allied to UKSA's reputation can enable a wide variety of superb events for UKSA members.

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In this issue...

On the 8th November the Investors Chronicle contained a substantial 4-page article exposing the denial of rights to shareholders in nominee accounts. This is the first fruit of UKSA's '*Runnymede*' campaign and the Runnymede Declaration was reproduced in full. As you know this campaign is an initiative of Eric Chalker, who is substantially quoted in the article and whose hard work - supported by the policy team - has created the impetus for this key UKSA policy objective to reach the public agenda. The campaign is also supported by Sharesoc, who sponsored a recent public debate on the subject. This is an example of what I joined UKSA for, and I hope it's a sign of things to come.

We have given a lot of thought to the new Lloyds/HBOS campaign and have concluded that individuals should make their own decisions, but as an organization we are unable to express an opinion on the merits of the case. Our reasons are more fully explained on the website under *'UKSA/Action Groups/ Lloyds/Bank'.*

I was sad to learn of the recent death of Nick Stevens. Nick was a founder member of UKSA, and by all accounts it was his drive that turned the passion of a small founder group into an effective force. I did not know Nick well, but in recent years he still exhibited the single-minded energy that must have been so important in establishing a fledgling organisation over 20 years ago. Our sympathies go to his family and friends.

A plea. Would members inform the office when they change their e-mail addresses? Moreover would you put UKSA on your contacts list to make sure that UKSA communications are not rejected as a spam?

Which brings me to Home Branches. There is a full article on page 18. Enough here to say that I have high hopes that this organizational tweak will revive some parts of UKSA whose numbers were previously considered too small and also bring in new members. The more members, the more branch areas will reach critical mass. New members, new members....

.....and more volunteers, more volunteers! Not just to form Home Branches but also to undertake a whole range of support activities for which we currently have neither enough capacity nor enough skills: almost anything to do with the website, reports on events for TPI, analysis of the UKSA database to identify membership clusters, analysis of share databases to identify company locations to match those clusters, coordination and cross-fertilisation of regional and Home Branch activity, financial admin. In short, what do you want to do? Do a little something from home or get out and about? We can tailor it. Call me.

Good luck! ***John Hunter***

Improving Company Reports

by Eric Chalker

UKSA members should be familiar by now with the work of the Financial Reporting 'Lab', a branch of the Financial Reporting Council (FRC). Created towards the end of 2011, its purpose has been, "To promote market innovation in corporate reporting through publication of evidence-based research, presenting practical and pragmatic solutions developed with companies and the investment community, addressing their issues." In other words, it wants to improve company reporting to shareholders.

Some of its work has been quite technical, to do with very specific aspects of financial reporting: debt terms and maturity tables, net debt reconciliations, operating and investing cash flows and presentation of market risk disclosure. It has also looked at governance issues: reporting of audit committees, single figures for remuneration, reporting of pay and performance. Its most recent published reports dealt with clear and concise reporting and accounting policy disclosures coupled with integration of related financial information – the latter being the subject of an article in our September issue, written by Carl Renner, one of the Lab's project directors.

From the start, the Lab has sought our assistance, in order to ensure that a representative cross section of private investor opinion contributes to its work. We have done so, but it has been difficult to make as full a contribution as I would have liked, principally due to the organisational burden. However, I am delighted to report that, following an appeal for assistance last month, in an email circular to members, two very well qualified volunteers have come forward, Mohammed Amin and Mark Gahagan, both of whom are now policy team assistants, each working on a separate Lab project.

Mohammed Amin MA FCA AMCT CTA (Fellow)

Amin was for many years an elected member of the PricewaterhouseCoopers supervisory board and a member of its audit and risk committee. He is a council member of the Chartered Institute of Taxation and Salford University and was for 5 years a non-executive director of Manchester TEC Ltd. He has been investing since his early 20's and is now in his 60's.

Mohammed Amin

In the early 1990's, Amin tells me, he decided to take control of his pension fund in addition to his other investments, "*So that I would have nobody to blame in retirement but myself*." His style is that of a buy and hold value investor, but says, "*I reckon I should be selling more often than I do.*" Now, with his wife, Amin currently has 53 different holdings. Like most of us, I imagine, he aspires to read all of these accounts and is trying to discipline himself to spend an hour a day on his investments.

Amin's home is in Manchester, but he spends about 75% of his time in central London. We arranged to meet at the London Investor Show, where we had a good chat. I asked him to lead for us on the Lab's project concerning the effectiveness of companies' communication and disclosure of their dividend policies and capacity. This project was initiated by the Lab at the end of March, but its development has proceeded slowly until now. I wasn't entirely happy with its terms of reference and said so at the time, but was assured we can influence its scope as it develops. Amin's initial contribution, which I sought and have welcomed, follows this article.

Mark Gahagan LLB
Mark is a detective inspector with Derbyshire Constabulary, looking forward to his retirement in July next year.

Like Amin, Mark has been investing for most of his adult life, initially drawing upon his father's experience. His objective now is to provide a supplementary income to his pension. He describes himself as a value investor, relying heavily on financial accounts and data providers such as CD Refs and Stockopedia. He reads the finals and interims for all of his holdings, currently around 35 companies, as well as accounts on any prospects he identifies for further research, saying, *"I probably read about 100 other reports per year (very approximate)"*.

Mark Gahagan

I met Mark in the City for a chat, before going onto the FRC's new offices in London Wall to meet Phil Fitz-Gerald. This was to discuss the Lab's investigation into the quality of reporting at smaller listed and AIM companies, about which there was an article in our July issue. This is the project I have assigned to Mark, who tells me he is extremely interested in it, not least because most of his investments are in small companies, particularly on the AIM, with one on ISDX.

Mark adds this interesting comment. *"I have spent most of my 30 years as an investigator which I think led to my interest in researching companies. I very much rely on my research to pick companies in which to invest, so I think my career has assisted me in that."*

As most members will know from a recent email circular, I am now looking for members interested in small companies' accounting practices (a rough guide being market caps between £20m and £100m) who might also be interested in a round table discussion on the subject. I am keen to find ways to increase our input to the Lab's work, to make sure that investors who put their own money into company shares really count.

Eric Chalker, Policy Director

Dividend Policy & Capacity

This is the Financial Reporting Lab project which Mohammed Amin has taken on for us. It is an important subject for many private investors, depending as some of us do on dividend income in retirement.

At my request and in order to make a bigger impact on this project than has been possible on previous occasions, Amin has presented the Lab with his own thoughts on what investors should be provided with in company accounts. For the sake of simplicity, he has not specified where the information should appear within the financial statements, but ideally, all of the information would be gathered together in a single note on dividend policy.

This is the information that Amin would like companies to disclose (but not listed in any particular order):

A calculation of the company's cash flow from operations, excluding cash from financing decisions, and the disposition of that cash between:

- **repayment of debt**
- **acquisitions**
- **expansion capital expenditure**
- **maintenance capital expenditure**
- **dividends**
- **purchases of own shares**

A forecast of how the company's cash flow from operations is expected to develop in future years.

An explanation of how the Board of Directors decides upon the allocation of cash flow from operations amongst the above categories of disbursement

In particular, an explanation of when the company will use cash for the purchase of own shares as opposed to making larger regular or one-off dividend payments and:

In particular, an explanation of whether the company targets a particular ratio of its operating cash flow or its accounting profits for payment as dividends.

Two examples of dividend policies which Amin regards as informative

Daimler AG (from page 90 of the 2013 Financial Statements)

Dividend: At the Annual Shareholders' Meeting on April 9, 2014, the Board of Management and the Supervisory Board will propose an increase in the dividend to €2.25 per share (prior year: €2.20). With this proposal, we are letting our shareholders participate in the Company's success while expressing our confidence about the ongoing course of business. The total dividend will thus amount to €2,407 million (prior year: €2,349 million) and the distribution ratio will be 35.2% of the net profit attributable to the Daimler shareholders (prior year: 36.5%). From page 146 of the 2013 Financial Statements (a forward looking section):

At the Annual Shareholders' Meeting on April 9, 2014, the Board of Management and the Supervisory Board will propose an increase in the dividend to €2.25 per share (prior year: €2.20). With this proposal, we are letting our shareholders participate in the Company's success while expressing our confidence about the ongoing course of business. We want our shareholders to participate appropriately in Daimler's financial success also in the coming years. In setting the dividend, we will aim to distribute approximately 40% of the net profit attributable to Daimler shareholders.

Antofagasta plc, from page 5 of the 2013 Financial Statements

Dividends: Earnings per share for the year were 66.9 cents, 38.3 cents lower than in 2012, which again reflects the challenging market conditions during the year and the increase in withholding tax related to this year's dividend. Our cash flow from operations declined to $2.7 billion and we continued to invest in Antucoya and other projects while maintaining our spending on evaluation and exploration.

The Board has amended the Group's dividend policy to simplify it and to set a minimum level of dividend relative to profits while considering the amount of excess cash held by the Group. Our new dividend policy is to determine the appropriate dividend each year based on consideration of the Group's cash balance, the level of free cash flow and earnings generated during the year, and significant known or expected funding commitments and to pay a total annual dividend equal to at least 35% of net earnings.

As the first stage of implementing our new dividend policy we are making a return of capital to shareholders of the Group's existing surplus cash while still retaining the Group's capacity to grow either through the development of projects or by acquisition. We continue to hold our debt at the operating company level and not at the centre, as this structure provides greater financing flexibility for the Group.

The Board has decided to recommend a final dividend of 86.1 cents per share, bringing the total dividend for the year to 95.0 cents per share. This represents a total amount of $937 million and a pay-out ratio of 142% of net earnings. As the recommended dividend includes a significant return of capital to shareholders, the pay-out ratio for this year does not indicate the pay-out that the Company may make in the future and this will be determined each year by the Board.

From page 69: The Board determines the appropriate dividend each year based on consideration of the Group's cash balance, the level of free cash flow and earnings generated during the year and significant known or expected funding commitments. It is expected that the total annual dividend for each year would represent a payout ratio based on net earnings for that year of at least 35%.

The importance of Feedback

by Edward Beale

Good parents provide feedback to their children. They tell them if they are doing something wrong, or could be doing something better, as well as providing support and encouragement when they are doing something well.

Good shareholders need to provide feedback to the Boards of companies that they are invested in. In the absence of feedback, shareholders should not be surprised when the actions of a board fail to improve or even deteriorate. In my view this is a significant element of what went wrong in the banking industry. Banks were reporting good profits, shareholders were receiving good dividends and share prices were strong. Individuals at banks pushed the boundaries are did not receive any adverse feedback. So boundaries were pushed a bit more. Other individuals saw what was happening and followed suit in order to compete. Institutional cultures and business practices evolved until the situation became unsustainable. I am not saying that shareholders are totally to blame for the banking crisis, but nor should they be totally absolved of blame.

As with any problem in life, in order to avoid repetition of the problem, we need to take to take a look at what went wrong and consider how things can be done differently next time.

Institutional shareholders are invested in too many companies and are unable to provide feedback to individual boards. Instead they support the development of one size fits all regulations. I use the word regulation here to cover not only law, but also corporate governance codes and accounting standards. Since no two companies are identical, one size fits all regulation will only work if it is the lowest common denominator, or if there is an appropriate mechanism for non-compliance. There is then a risk that any non-compliance mechanism is abused.

Since law does not permit exceptions, for law to be an appropriate form of regulation, and not to be abused, it should be the lowest common denominator. For example the single figure for remuneration does not work since it is not the lowest common denominator and is the sum of apples and pears. Not only that but apples and pears grown in different seasons. Yet these numbers will continue to provide headlines for journalists who do not understand what they are talking about.

Corporate governance codes also suffer problems from being too obsessed with the minutiae of structures and processes. They give little attention to the most important factor, which is the quality and mix of skills and experience of the people running the company. At the Quoted Companies Alliance we have provided our own QCA Code for smaller quoted companies, which seeks a more balanced approach. This is the work of a committee so in my view it still does not go far enough in emphasising the importance of people in corporate governance.

Accounting standard setters appear fixated on comparability to the hindrance of explaining how the business model has led to cash inflows and outflows for the business. Despite some fine words, complexity in accounts only ever seems to increase.

But this approach of institutional investors via "improved" regulation is only an indirect approach to the problem. In my view a direct approach is preferable. Directors are there to serve the interests ultimately of shareholders. They should listen to the views of shareholders, and if there is sufficient weight of opinion, react to those views. A direct approach allows action to be tailored to the circumstances, rather than trying to shoehorn everyone into a one size fits all regulatory solution.

So we come back to feedback.

I am a director of a number of small quoted companies and I and my fellow board members rarely hear from shareholders. We provide presentations to institutional investors and receive some questions, and via our broker or PR agent we receive some feedback from those meetings. But this is only a sub-set of shareholders, and we virtually never hear from the others. Some shareholders come to AGMs, but not many. A few of them ask questions, but again not many.

Please ask yourselves how you expect directors to improve their performance if you do not let them know that there is room for improvement? Constructive criticism should always be welcome. Congratulations on good performance would be nice too. Operating in a vacuum is not comfortable.

As a director, I would like to hear from shareholders their views on the company's strategy, performance, board make up, remuneration, and quality of reporting.

Questions that might be asked

Do you think that there are any opportunities or risks that have been overlooked?

How might we perform better?

Is the board lacking in particular skills or experience?

Are board pay levels right?

Are incentive schemes aligning management and shareholder interests?

Do incentives encourage the right things?

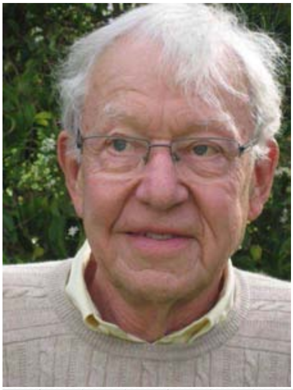
Which parts of the annual report could be improved?

Please can you also get involved either directly, or through representative bodies, or preferably both, in the development of regulation? Most regulation has the stated purpose of protecting shareholders. Regulators need to hear your views, as shareholders, on whether you think that your interests are being protected by existing or proposed regulation. As the Socialist Workers Party used to say: "If not you, who? If not now, when?"

About the Author:

Edward Beale is the chairman of *Marshall Monteagle plc* (listed in Johannesburg) and a director of *Finsbury Food Group plc* (AIM), *Swallowfield plc* (AIM), *Heartstone Inns Group plc* (AIM applicant), and *Western Selection plc* (ISDX). He served on the UK's Accounting Standards Board for 6 years to 2014 and is a member and past chairman of the Corporate Governance Expert Group of the Quoted Companies Alliance. He has contributed to the QCA's corporate governance, audit committee, and remuneration guides, and is joint author of the QCA's share option valuation model. He has an engineering degree from Cambridge University and is a fellow of the Institute of Chartered Accountants in England & Wales. Having qualified as a chartered accountant with Price Waterhouse in London, he worked in a number of mainly import and distribution businesses prior to becoming CEO of City Group plc. City Group provides an outsourced company secretarial service to smaller quoted companies.

Update on the Kay Review



Roy Colbran

On October 27 Eric Chalker represented us at a presentation led by Vince Cable to give his promised update on progress on the Kay Review. The event was also used to announce the inauguration of the Investor Forum which was one of Professor Kay's recommendations.

The Forum is intended to provide for collective engagement between investors and UK companies without contravening rules treating collective action as anti-competitive. The short booklet describing the Forum gives some impressive objectives including promoting meaningful cultural change. It is at this moment far from clear how such cultural change is to be achieved but it is early days yet. Reverting to Kay, Eric came away with copies of a 52 page booklet produced by Vince Cable's Department described as Progress Report one of which he kindly passed to me. I have managed to read it through but have yet to have time to link it up properly with what has gone before and all the implications. For example simultaneously there is published a 108 page independent research report entitled *"Metrics and models used to assess company and investment performance."* (A volunteer to read this and see if there is anything relevant to us would be very welcome!)

It follows that any comments I make at this stage are preliminary. However, the overall impression is that there is an awful lot going on but it is not clear whether it all adds up to achieving what I think could be said to be Professor Kay's overarching targets for his report. These were (i) really to move the whole investment climate to the situation where those involved could be trusted to act in the interests of the ultimate investor at a level equivalent to what one expects from one's GP, (ii) to get the market moving away from short-termism, and (iii) to do something to reduce the enormous amount of intermediation between the individual whose money is actually invested and the companies whose shares provide the return to that individual. There is no impression from the report that anyone is actually standing back and looking at the overall picture. Simon Walker, director general of the Institute of Directors, wrote a few days ago that this progress report was disappointing. I have to agree with him. Earlier on the relevant Parliamentary Committee expressed its unhappiness with progress and was quoted as intending to keep a close eye on it. It may be that when we have had a little more time we shall want to write to press them to go into action.

Roy Colbran

Our European Allies

Martin Morton (our Brussels correspondent as it were) tells us of the latest significant comments of Guillaume Prache, managing director of *Better Finance,* the European Federation of Financial Services Users which represents European individual investors.

Guillaume Prache

M. Prache was speaking on 28 October 2014 at the 15th European Corporate Governance Conference. He noted that the European Commission's review of the shareholders' rights directive is a good step forward, but, if not amended and improved upon by the European Parliament, will fail to fix the high barriers to shareholder engagement in EU listed companies.

He stressed that many individual shareholders of EU companies will still have to pay high fees to exercise their voting rights across borders within the EU. If the internal market for capital is to carry any meaning at all, cross-border voting by EU citizens within the EU should be cost free, as is the case within Member States. Many others, especially those whose shares are lodged by intermediaries into omnibus or nominee accounts, and those who are domiciled in a different EU Member State than the issuing company, will still not be able to vote at all, mainly due to the persistent failure of financial intermediaries to identify the beneficial owners of shares and to send them the voting material.

This is all the more unacceptable as these very same intermediaries are perfectly capable of identifying beneficial owners when it comes to paying them dividends on their shares. For voting rights to be genuine, all beneficial owners must be provided with adequate voting material in a timely manner. Another barrier to individual shareholder engagement is the frequent lack of legal recognition and rights of shareholder associations in Member States, even though these associations are the best way for small and individual shareholders to engage effectively with the companies they co-own.

Lastly, the exclusion by the new European Commission of the Shareholders Rights Unit from the Financial Services Directorate and its incorporation into the Justice one raises serious concerns about the reality of its proclaimed focus on long term investment and the Capital Market Union. After all, how could such a Union come about without the establishment of a single market for EU-wide shareholder engagement that does not discriminate against cross-border shareholders or those shareholders whose shares are lodged in nominee accounts?

A few days later he noted with concern that the panel on *"relevant players in the market for long term capital"* at the upcoming Conference by the European Commission and the Italian Presidency on the Capital Market Union, did not include any representatives of individual investors, although they are explicitly (and rightly) identified as **one of the three key players** in the conference programme. Furthermore, asserting that the liquidity preferences of "retail" investors as being *"orientated to the shorter term"* is quite questionable, as currently more than 60% of EU households' financial assets are invested in long term products.

The Corporate Governance Conference was held in Milan, not Cleckheaton or Dudley, as you might have thought.

The Commission itself acknowledges that *"households are the main source of funds to finance investment.* Of additional concern is the fact that financial repression is alluded to - if not explicitly mentioned - as the tool of choice to "incentivize" individual savers to invest on a long-term basis. This is certainly a "stick" and not a "carrot", and shows complete disregard he said for the on-going destruction of the real value of the European citizen's savings, caused by financial repression and often excessive intermediary fees.

Last but not least, labelling people who "save" as "*retail*" investors instead of "*individual*" ones, demonstrates that EU savers are considered more as marketing targets for the financial industry rather than responsible citizens.

(**See the following pages for our growing interaction with Better Finance's emerging—and stronger—profile—Editor**)

A letter from Eric Chalker

Dear Guillaume,

It is good that EuroFinUse is being consulted, but I don't get the impression that 'consumer protection' is the real purpose of the day. If it were, should not ESMA be undertaking the consultation, rather than EIOPA?

Looking at what are listed as possible topics I would describe the overall purpose as improving the marketing strategy of the financial services industry. If better consumer protection is really the objective, two subjects stand out a mile (kilometre, if you prefer) as requiring attention. These are education and compensation.

As my UK Shareholders' Association colleagues know, I hate the word 'consumer' in the context of savings and investment. Savers and investors *produce*, they don't consume. Savers and investors are the primary source of wealth and therefore of *growth*, but the financial services industry (apparently supported in this by EU bodies) only looks for ways to suck more money out of those savings and investments. It may be better elsewhere in the EU, but in the UK the education necessary to ensure that individuals can take good care of their savings and choose their own investments is woefully lacking. The industry thrives on the complexity it creates, interposing itself between the vehicles of growth (ie commercial enterprises) and those with the money to invest. States have an obligation to correct this, so that's one target for ESMA.

However, when savers *are* induced, for whatever reason, to place their savings with intermediaries (as is certainly becoming the dominant feature of private investment in the UK), rather than directly into the commercial enterprises seeking profit and growth, they need a high level of financial protection in the event of an intermediary's failure. I don't have the knowledge to judge the situation outside the UK, but whereas the EU has prescribed a minimum 100k euros for loss of savers' deposits (£85,000 in the UK), it apparently has no concern for loss of investments held by intermediaries. In the UK, such compensation is limited to £50,000, yet the value of investments held for individuals by intermediaries can run to a £1m or more. Because of changing pension provision in the UK, whereas in the past many saving for or drawing a pension could rely upon a 90% guarantee, this is rapidly disappearing as individuals are increasingly obliged to develop personal pension funds with only a derisory £50,000 guarantee in the event of failure, so remedying this in all member states that currently provide inadequate pension protection should be a second major target for ESMA.

Eric Chalker

A letter from Roy Colbran

Dear Juan,

Thank you for sending us EuroFinuse's comments on this directive which we have read with interest. We have also been trying to understand the Directive itself although we found the press release items easier.

It seems to us that a lot of the deficiencies to be seen in this document from the individual investor's point of view derive from the concentration on the term "shareholder". If we understand the position correctly, the Commission is still sticking to the definition of this in the 2007 Directive which is *"shareholder means the natural or legal person that is recognised as a shareholder under the applicable law"*. In the UK this would certainly be the nominee company where shares are held indirectly so that improving the rights of the shareholder would not help us. Accordingly we believe that there is a need to concentrate on getting the Commission to recognise that the people who matter throughout are the beneficial owners and not the shareholders as defined.

Reading through the Press release items, we see a lot that is familiar to us and in many respects the Commission seem to have come to much the same conclusions as our Professor Kay in his review. When it comes to director remuneration, the proposals for binding votes seem to be following a path which is being tried in the UK without the prospect of achieving very much. Part of the trouble is that the people holding the votes are often those who have a direct interest in generally high levels of remuneration and so have no reason to vote against packages that ordinary people might think highly excessive. More generally, we note an enthusiasm for performance-related remuneration which is equally shared by the authorities here. One has to question why it is that people at the top are assumed to be unlike normal people in needing such high performance related payments to give of their best. However, a major problem with such incentives is defining the performance targets in a way that they reward long-term results and not short-term improvements in share prices or earnings per share for example. Professor Andrew Smithers, a distinguished economist here argues that current systems of performance-related pay are detrimental resulting, for example, in share buy-backs when it would be much better in the long run if the money were reinvested in developing the business. We don't know how to solve this problem but at least it need to be recognised in adding to requirements about pay packages. It is worse in the USA than in the UK but the UK seems itself to be worse than other European countries.

Roy Colbran

Shareholder Effectiveness

by Eric Chalker, Policy Director

Nominee accounts

In September, I reported the launch of our *Runnymede Declaration* as the next step in achieving full shareholder rights and protections for private investors using pooled nominee accounts. It is already making an impact, but there is much work still to do to achieve the results we want.

Vince Cable, Secretary of State for Business Innovation & Skills (BIS) has recently published an interim report in respect of the 2013 Kay Review recommendations. Progress has been slow, but that was perhaps to be expected. We are particularly concerned with recommendation 17, about which the BIS report states this.

> *"The Government...... will continue to explore (in discussion with the FCA and key stakeholders) the most cost effective means for individual investors to hold shares directly on an electronic register, should they wish to do so, as recommended by the Kay Review."*

I know this commitment to be real and that action on several fronts is being taken. The UK Shareholders' Association is a key stakeholder and is being consulted. I am not in a position to give any detail, but can say that I am very encouraged by what I hear from within BIS, which continues to echo the strong letter of support we received in July 2013 from Jo Swinson MP, Parliamentary Under Secretary of State at BIS. All those concerned are conscious of next year's general election, but what we seek should not be a party political matter and I know that steps are being taken to minimise the possibility that this important work will be interrupted.

Meanwhile, across the Channel, new EU legislation on shareholder rights is being debated. I am very pleased to report that, after strenuous efforts by Harry Braund and Martin Morton, our representatives in the organisation now known as Better Finance (previously EuroFinUse) have now fully taken on board the lack of rights enjoyed by UK nominee account users (a problem, it appears, which is unique to the UK) and are now including the need for this to be remedied in the representations they are making to EU bodies. I hope to reinforce this message when I join Harry and Martin in attending the Better Finance annual assembly and conference in Wiesbaden this December.

Fining the banks

It is galling for private investors still holding bank shares (as I do myself) to read of the massive fines being levied, arising from actions – or failures to act

– for which the directors personally should be punished. As those administering the law are seemingly impotent in the matter, the implication – sometimes expressed explicitly – is that it is up to shareholders to rein in errant behaviour, or dismiss those who should be accountable. It is galling because so many private investors in the banks do not even have the right to vote on directors' re-election, or their pay.

On that question of pay, don't you find it odd that we are constantly being told that high pay, bonuses, pension rights and other benefits, including free or cheap shares, must be awarded in order to attract and retain the best talent, when so often that "best talent" is unable to deliver or, worse still, destroys shareholder value instead?

For those who do have the right to vote, there is something wrong with this country's attitude to AGMs. On the continent, they have AGMs lasting several hours, during which some penetrating questions get asked and real issues are discussed. Not so here. AGMs are often organised to restrict the time available to shareholders attending and make it difficult for them to engage in real dialogue with the directors. I described such behaviour in May 2011, when I wrote about the Barclays AGM that year. It is sometimes suggested that AGMs have become an anachronism and should be done away with, but I believe the opposite is true: not only should they most definitely be retained, but they should be made more meaningful and a better means of achieving director accountability.

How else to be effective?

Elsewhere in this issue, you will find a thoughtful – and perhaps somewhat provocative article by Edward Beale. Here is a company director pleading for shareholder feedback. How many of us do this, I wonder? All of us can (even if your shares are in a nominee account), but I suspect too few of us do.

My ability to take such action is limited by the time absorbed by UKSA, but I still do find time to attend general meetings when there is something to be said and send letters to chairmen, CEOs and CFOs when that seems more appropriate. Sometimes this produces surprisingly pleasing responses (I still remember being telephoned by the deputy chairman of HSBC at 6.00pm on a Saturday evening), but on other occasions the outcome is not satisfactory. I'm still waiting for a reply to questions about Rolls-Royce gearing, reported by Company REFS as 762%, but having challenged Swallowfield over its unreadable annual report I have been promised something better next year.

It would be good to read in this magazine of such actions taken by other members. Please tell us of your experiences!

Eric Chalker, Policy Director

Home Branch Development for UKSA

We are going to expand regional activity.

The regions are UKSA's heartbeat. That's where the meetings, events and company visits that are an important part of UKSA's activity are generated. The problem is that outside the main cities it is difficult to gather enough members in one spot to make such events worthwhile. To combat this the Board last week approved the concept of 'Home Branches'.

Home Branches may be formed by any group of UKSA members with a common interest. This may be as simple as half a dozen members meeting in your own home for discussion evenings, or it may be more ambitious. That's up to you.

The one essential is that each group must have a leader, who will have the support of an identified UKSA regional or central officer. You will also have central support from the UKSA database to enable you to find local members and local companies.

Though I expect new Home Branches to start in a small way, I hope in time that some of you will start to arrange company visits. Unless you have experienced the potency of our brand you have no idea how effective it is and how the UKSA name can and does attract , through company presentations, the disclosure of the kind of information normally reserved for institutional shareholders or City journalists. Better than that maybe - companies and institutional shareholders have strong interests in common and journalists are regarded warily - but with private shareholders they can both get something different and speak more frankly thereby.

Now all we need is volunteers. If you are interested in supporting UKSA by forming a Home Branch, get in touch with your regional contact, the UKSA office or me and we'll see what help you need.

And I'll never tire of saying so, but finding volunteers on every level is what UKSA is all about. And as the foregoing argues the growing recognition of the strength of our brief is making it easier than ever for the individual to make a difference. How many gross errors in the conduct of publicly-owned companies might have turned out differently had private shareholders had a voice? We're making that happen. You should join us.

John Hunter

Financial Reporting Lab

Members of The UK Shareholders' Association will now be familiar with the work of the Financial Reporting Lab. Several issues of *The Private Investor* have carried articles written by the Lab's project managers, as well as other information provided about it. Set up by the Financial Reporting Council, its purpose is to encourage fresh thinking on the way companies provide information to their shareholders. What it has done to date can be seen at https://frc.org.uk/Our-Work/Codes-Standards/Financial-Reporting-Lab.aspx.

From its inception, the Lab has sought The UK Shareholders' Association's assistance, in order to obtain the views of knowledgeable private investors in respect of the projects it has initiated. We have provided this assistance in a variety of ways, to a lesser or greater degree depending on the subject under consideration and availability of someone in the policy team to take it on. The projects are continuing and I would like to recruit someone to UKSA's policy team as my Lab Projects Assistant, in order to make our contributions more effective.

I am looking for an UKSA member with particular interest in company accounts. He or she need not be an accountant, but will be an experienced investor who makes judgements about listed companies based on the information they provide. That said, the ideal person to assist me is someone who is ready to accept that not all investors think alike and that in assisting the Lab we should aim to be as representative as possible of private shareholders as a class.

The Lab's projects do not involve continuous work. They arise periodically and can differ in nature. For some we are invited to help construct questionnaires for our members to answer. Sometimes we have the opportunity to participate in round table discussions with company executives and representatives of major investors such as pension funds. All participation is on a confidential basis until the report (having received participants' approval) is published, but individual opinions are never attributed.

If this email arouses your interest, please reply to policydirector@uksa.org.uk, with Financial Reporting Lab as the subject.

Best regards,

Eric Chalker
Policy Director

Letters to the Editor

Dear Sir,

I read with interest the intent of the "Runnymede" campaign and hope it will be successful in bringing about the objectives sought by UKSA. However, I believe fervently in holding shares in certificated form, as I do not trust any company which is set up by a financial PLC to control the shares which I have purchased or have obtained by financial investment and represent a very small ownership within the particular company.

The idea that a nominee company will be working in the interests of an investor, is contrary to what has happened in the City of London over recent years, whereby various forms of financial manipulation has taken place, some appearing to be fraud and for which, as yet, no senior management person comes to mind who has worked for a bank or financial company, who has be openly judged and sentenced for committing such a crime. Meanwhile, we are blindly expected by various means to pay directly or indirectly to have the privately organised companies take virtual ownership of the shares and over which we have no real control.

Also, the cost charged for share certificates in not warranted, because if we look at computers and the amount of paper produced by this medium of record making, maintaining application programs and web development, the realised cost is considerably greater than the simple paperwork act involved in producing a paper certificate. Also, full security of computers does not exist and attempts to prevent this is fraught with costly short term complications in an endeavour to combat potential cyber crime.

Coupled with the desire to make shareholders use nominee accounts and companies, we should consider the failure of banks, which are still propped up by tax payers, as an example of companies who were trusted by the public but showed the case was quite the opposite. Hence, unless there is some way the owners of shares can have a say over nominee companies and how they can be controlled, it is not possible to be totally re-assured by institutions and Government.

When I see people control of nominee companies evident, then, and only then, will I have faith in the security they offer and that my shares are in safe keeping, which should include a right to have access to a relevant company board and appropriate AGM

R.D.V. Kite

Dear Sir,

The Australian Solution

Joseph's Zarfaty is absolutely right (September issue) to remind us of the strengths of the Australian system of share-holding. I have a friend in Australia who tells me how well the system works for him and he can hardly bring himself to believe what we have here. A few years ago we in the Policy Team went to great trouble to make sure we understood as far as possible just how the Australian CHESS system works. We communicated with authorities in Australia and with a lady who was managing CHESS regulation at the time Australia fully dematerialised. (Incidentally Australia is decades ahead of the UK in this respect.)

As a result we concluded that something akin to the Australian system would solve the UK problem. Unfortunately the group who are working on a replacement for certificates also claim to have studied the Australian system, and those in other countries, and say that they all have deficiencies as regards transferability to the UK. So far we have not been able to get them to identify precisely what those deficiencies are although we will continue to press them to do so. At the moment the regrettable result is that the group is working on the Direct Record system as a replacement for certificates while proposing to leave the present system to run in parallel for nominee holdings. UKSA and others will continue to press for one common system which looks through from the issuer to the beneficial owner. Dematerialisation provides the obvious opportunity to achieve this. It seems that the authorities in Australia pushed hard for their system and we may well need a push on behalf of Government or the European Commission to achieve it in the UK.

Roy Colbran

Dear Sir,

I refer to'the sad decline of the private shareholder' and think it overstated. Those in work often choose to save and provide for old age through ISAs and SIPPS where their holdings could well be self managed. Many who are retired have ISA and SIPPSs of significant which they are more likely to self manage and yet in both cases their holders are seen as institutional. My father held his shares in his own name. To-day my holdings and those of other family members, in the main, are hidden in self managed ISAs and Pension funds. It would be silly to ignore the tax benefits of so doing. Therefore I applaud the campaign to seek voting rights in such circumstances but I doubt the companies in which we invest would welcome active, voting, private shareholders.

Peter Wilson

Regional Information

These events are open to members from all regions, and their guests, unless otherwise indicated. For 'waiting list' events all places are taken but there is a waiting list for cancellations.

LONDON & SOUTH-EAST

All events must be booked in advance via the specific organiser. Future events are shown in this magazine and on the UKSA website. Members from other regions are very welcome. For more information please contact Harry Braund on 020 8680 5872 or email harrycb@gmail.com

Within this region there is a separate Croydon and Purley Group which meets in Croydon, usually on the second Monday of each month, at the Spread Eagle pub, next to the Town Hall. Please contact Tony Birks on 01322 669 120 or by email ahbirks@btinternet.com ,who will confirm actual dates. There is no charge and no booking necessary.

MIDLANDS

For general information, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

At the present time no meetings are being arranged specifically for the region, but members are cordially invited to attend meetings in the North or South West regions where they will be made very welcome; or indeed London if that is more convenient.

SOUTH-WEST AND SOUTH WALES

All South-West events must be booked in advance, and are open to all members and their guests subject to availability.

Didmarton: The King's Arms, Didmarton: cost is £22.50, including coffees and lunch. Events are at 10 for 10.30am. To book, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

SCOTLAND

For information on Scotland please contact George Miller at g.miller1010@btinternet.com

NORTH-EAST

Advance notice is required for all company visits and lunches. Knaresborough: venue is the Public Library, The Market Place, Knaresborough. For more information (except where stated otherwise), please contact Brian Peart, 01388 488419.

NORTH-WEST & NORTH WALES

For details of events, please contact D. L. King, 01829 751 153

Dear Member

Under a forthcoming EU directive, some companies will be required to provide new information on anti-bribery and corruption matters and to change how they provide other non-financial information in their annual report. The UK government is seeking information about how the changes will affect these companies and the users of the data provided in the non-financial sections of companies' annual reports.

More information on the changes can be found at: http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm
(control+click to follow link)

The survey, which should take a maximum of **15 minutes** to complete, can be found at the following link:

https://www.surveymonkey.com/r/NFRShareholders_AssetManagers
(control+click to follow link)

Please note that you will need to complete the survey in one sitting as responses will be lost if you close your browser.

The responses you provide in this survey will be used by the Department of Business Information & Skills to inform its analysis of the costs and benefits to companies and to the users of data from implementing the EU directive. Your answers will be treated by it as **confidential** and will be anonymised and aggregated in any publication.

Thank you.

Eric Chalker
Policy Director
The UK Shareholders' Association

UNITED KINGDOM SHAREHOLDERS' ASSOCIATION
CURRENT UKSA EVENTS

Vodafone Group plc Gerard Kleisterlee Chairman & Anthony Hamilton Investors Relations	London	Wednesday, 3 December 2:00 pm	**Presentation**	Nick Steiner 020 8874 0977 n.steiner@btinternet.com
Rexam	London	Friday, 5 December 11:00am	**Analyst-style Meeting**	Harry Braund harrybraund@yahoo.co.uk
Young and Co.'s Brewery Stephen Goodyear CEO & Peter Whitehead Finance Director	London	Tuesday, 9 December 11:00am	**Presentation**	Nick Steiner 020 8874 0977 n.steiner@btinternet.com
NAHL Group plc Russell Atkinson CEO Steve Dolton CFO	King's Arms Didmarton	Tuesday, 9 December 10am to 4pm With coffee from 10am and a seasonal lunch at 1pm	**Presentation**	To book e-mail Catharine Moss cam.uksa@btinternet.com and petertwilson @dsl.pipex.com

UKSA members who have not attended one of these meetings may not appreciate how valuable they are. They are invariably addressed by one or other of the three principal directors and the information presented is the same as that given to City analysts. For some of those who do attend, these occasions are UKSA's most valuable membership benefit and, for this reason, there is often competition for places.