To whom it may concern,

ShareAction (FairShare Educational Foundation) welcomes this opportunity to respond to the consultation paper ‘Transparency and trust: Enhancing the transparency of UK company ownership and increasing trust in UK business’.

ShareAction (formerly FairPensions) is the UK’s leading charity monitoring and engaging with institutional investors. Our goal is an investment system that serves savers, society and the environment. In particular, we work to encourage effective management of environmental, social and governance (ESG) risks, and active stewardship of listed companies through the informed exercise of shareholder rights. ShareAction also champions greater transparency and accountability to the millions of people whose long-term savings are entrusted to the capital markets.

Our comments focus on Part A of the consultation relating to transparency of beneficial ownership. In particular our response relates to the following questions posed by the consultation paper:

1. The proposed definition of beneficial ownership and its application in respect of information to be held by a central registry?
2. The types of company and legal entity that should be in scope of the registry?
19. Whether information in the registry should be made available publicly. Why? Why not?

We agree with the consultation paper that “good corporate governance is inherently linked to trust in our capitalist system and that effective governance is therefore a critical characteristic of a business environment that promotes long-term sustainable growth”. In our view, improved transparency of beneficial ownership has a role to play not only in avoiding criminal activity at the margins of corporate activity, but also in promoting high
standards of corporate governance within the mainstream. We would like to see the government take this opportunity to consider whether transparency of beneficial ownership in relation to listed companies is currently adequate, and whether improvements to this could help to promote the stewardship culture envisaged by the Kay Review.

As the Review observed, the dominance of nominee holdings (among both retail and institutional investors) has the effect of distancing companies from their ‘real’ owners. Listed companies’ share registers are generally dominated by large custodian banks and asset management firms, giving little insight into the underlying asset owners (such as pension funds) for whom these agents act. The prevalence of pooled funds compounds this trend.

We understand that companies have raised concerns about not being able to identify their ‘real’ owners, arguing that this hampers effective shareholder engagement. At the other end of the investment chain, we sometimes receive inquiries from individual pension savers trying to find out if their money is invested in a particular company; because of the minimal disclosure requirements applying to pension funds, this is generally not something they can find out either from the company’s share register or from the fund concerned. This problem is discussed further in ShareAction’s forthcoming report, ‘Our Money, Our Business: Building a more accountable investment system’. In our view, a more comprehensive transparency regime surrounding the beneficial ownership of listed companies would advance the stewardship agenda both by enabling companies to identify their true owners, and by enabling underlying beneficiaries to hold asset owners to account for their stewardship activities.

We recognise that this is a different matter from the specific proposal detailed in the discussion paper, since this takes the definition of ‘beneficial ownership’ from the Money Laundering Regulations 2007, designed to identify owners with a major controlling influence (defined as 25% or more of a company’s shares or voting rights), and proposes to exempt companies listed on the Main Market of the LSE. Exactly how the beneficial ownership of listed companies might be made more transparent, and on whom the primary responsibility for this should fall (companies, legal owners, or beneficial owners) would need to be a subject for further debate. However, because of the growing dispersal of listed company ownership, any meaningful measures would need to extend beyond both the 25% threshold of the present consultation, and the much lower thresholds which already apply to listed companies and their shareholders regarding the disclosure of major shareholdings.

In our view, any new central registry of beneficial ownership information should be made public, for all the reasons suggested in the consultation paper: the benefits of public scrutiny in maintaining the accuracy of information; the value of this information to the market in enabling market participants to know with whom they are doing business; and, last but not least, the clear public interest in this information. In relation to the wider issues about beneficial ownership of listed companies discussed above, the case for public disclosure is if anything stronger: public disclosure is by far the simplest and most cost-effective way to make information accessible to the millions of underlying beneficiaries whose money is invested through institutions like pension funds and insurance companies.
We remain at your disposal and would be pleased to meet with officials to discuss the issues raised in this response.

Yours sincerely,

Christine Berry
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