



London Stock Exchange Group response to the BIS discussion paper “Transparency and trust: enhancing the transparency of UK company ownership and increasing trust in UK business”

16 September 2013

Executive Summary

- The exemption from the register of beneficial ownership should be extended to all companies that comply with the UKLA’s Disclosure and Transparency Rules, since all these companies are already publishing this information
- We support the phasing out of bearer shares
- We question whether the Companies Act is the appropriate place to introduce sector-specific regulation for banks

Introduction

1. This document is the London Stock Exchange Group (LSEG) response to the BIS discussion paper “Transparency and trust: enhancing the transparency of UK company ownership and increasing trust in UK business.”
2. LSEG welcomes the opportunity to comment on the important corporate governance issues raised in the discussion paper. The London Stock Exchange plc, part of LSEG, has admitted to listing over 2,000 UK companies of all sizes, which have a market capitalisation of £1,750 billion and together employ over seven million people. These companies comply with the highest corporate governance standards in the UK including the transparency obligations within the UKLA’s Disclosure and Transparency Rules.
3. Rather than provide a separate response to each question, we have set out our points in relation to particular issues in the report. These are:
 - A. The proposed register of UK company beneficial ownership
 - B. The abolition of bearer shares
 - C. Amendment of Companies Act 2006

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LSEG key points in response to discussion paper

A. Register of UK company beneficial ownership

4. The proposed register of beneficial ownership of all UK companies includes an exemption for companies listed on the LSE's Main Market because they already disclose this information. We support this approach; in fact, this exemption should be extended to include all companies that comply with the UKLA's Disclosure and Transparency Rules, since all of these companies are already publicly disclosing beneficial ownership figures. This includes SMEs on AIM.
5. Without this exemption, the register would force over 850 UK SMEs on AIM to make the disclosure again, which is an unnecessary regulatory burden, because they already comply with the Disclosure and Transparency Rules, so they are already publishing information on beneficial ownership.
6. We also suggest that the exemption should include wholly-owned subsidiaries of any companies exempted from the register, as information on subsidiaries is disclosed in a company's annual return.

B. Abolition of Bearer Shares

7. The discussion paper proposes banning the new issue of bearer shares in the UK, and facilitating their conversion into ordinary shares. Bearer shares are not admitted to LSEG's UK markets. We support transparency and disclosure as part of good corporate governance and for this reason we support the halting of issuance of new bearer shares, and the phased conversion of existing bearer shares into ordinary shares (or similar). Overall, we consider that the phasing out of bearer shares would also support progress towards de-materialisation of share certificates and improve the efficiency of the post-trade system.

C. Director's responsibilities in key sectors

8. The discussion paper proposes amending the director's duties in the Companies Act 2006 to create a primary duty for directors of large banks to promote financial stability over the interests of shareholders. Whilst we understand the drivers for such an approach, we do question whether the Companies Act is the appropriate place to introduce sector-specific regulation. We suggest that this risks undermining its crucial and vital role as the legal standard for all companies in the UK. This type of sector specific regulation might better be left to the expert role of the appropriate regulatory body for credit institutions, in this case in the Prudential Regulatory Authority.
9. We also caution against an approach to bank reform that inserts a duty for directors above that of their duty to shareholders. The duty of directors to manage a company in the interests of shareholders is a cornerstone of UK company law. Similarly, it can be expected that shareholders of a large bank would be equally concerned with the safety and soundness of the bank. Therefore, as described in paragraph 8, we would suggest that a sectoral approach may be more appropriate in this instance.