

The Kay Review: terms of reference

An independent review of the effect of UK equity markets on the competitiveness of UK business

The UK has strong equity markets, which attract leading investors from around the world, and it benefits from an internationally competitive fund management industry. Equity investment is a source of funds for UK companies, and is one of the principal mechanisms through which savers provide for retirement and fulfil their other long term financial goals. Shareholders have a primary role in promoting the accountability of management and boards for the performance of their businesses.

The Government wishes to ensure that UK equity markets continue to perform to the benefit of both companies and investors. The Secretary of State has therefore commissioned a review which will consider the ways in which the mechanisms of control and accountability provided by UK equity markets, and the behaviour of the agents in that process, affect the performance of UK businesses. The review will give particular emphasis to the ability of managers to focus on the actions needed to enhance the long term competitiveness of UK based firms and achieve the best long term returns for UK savers.

The terms of reference for the review are:

To examine the mechanisms of corporate control and accountability provided by UK equity markets and their impact on the long term competitive performance of UK businesses, and to make recommendations.

This will include the following areas:

- Whether the timescales considered by boards and senior management in evaluating corporate risks and opportunities, and by institutional shareholders and fund managers in making investment and governance decisions, match the time horizons of the underlying beneficiaries.
- How to ensure that shareholders and their agents give sufficient emphasis to the underlying competitive strengths of the individual companies in which they invest.
- Whether the current functioning of equity markets gives sufficient encouragement to boards to focus on the long term development of their business.

- Whether Government policies directly relevant to individual quoted companies (such as regulation and procurement) sufficiently encourage boards to focus on the long term development of their business.
- Whether Government policies directly relevant to institutional shareholders and fund managers promote long-term time horizons and effective collective engagement.
- Whether the current legal duties and responsibilities of asset owners and fund managers, and the fee and pay structures in the investment chain, are consistent with asset owners' long term objectives.
- Whether there is sufficient transparency in the activities of fund managers, clients and their advisors, and companies themselves, and in the relationships between them.
- The quality of engagement between institutional investors and fund managers and UK quoted companies, and the importance attached to such engagement, building on the success of the Stewardship Code.
- The impact of greater fragmentation and internationalisation of UK share ownership, and other developments in global equity markets, on the quality of engagement between shareholders and quoted companies.
- Likely trends in international investment and in the international regulatory framework, and their possible long term impact on UK equity markets and UK businesses.

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