



London
STOCK EXCHANGE

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Dear Eve

**RESPONSE TO HM TREASURY'S CONSULTATION ON IMPLEMENTATION OF
THE MAJOR SHAREHOLDING NOTIFICATION PROVISIONS OF THE
TRANSPARENCY DIRECTIVE**

Thank you for the opportunity to comment on the Government's proposed policy approach for implementation of the major shareholding notification provisions of the Transparency Directive.

We believe that a regime that enables companies and investors to be informed of changes to major holdings in share capital, enhances effective control of those companies and ensures overall market transparency of important capital movements. These features are vital for ensuring efficient markets.

The proposals made in the consultation are important and could have a substantial impact for both companies and investors; we therefore believe they are worthy of a more substantial consultation. In particular, the definition of disclosable interest and the question of whether holdings in particular types of financial instruments should be disclosed are topical questions that require full consultation. We do not believe that the 1995 DTI consultation on company law reform suffices as there has been considerable change in the market over the last ten years.

For these reasons we believe that for the time being, the definition of disclosable interest should remain as it is. As for the question of disclosure of financial instruments – we agree that equivalent powers should be given to FSA, on the proviso that the debate will be opened up should there be any changes to the scope of the regime.

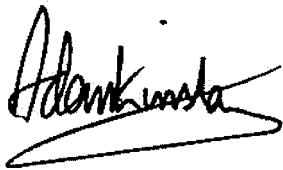
Please see the attached appendix for our answers to specific questions raised in the Consultation Paper.

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I hope our views are helpful to HM Treasury's work. Please do not hesitate to contact me if you wish to discuss any aspect of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Adam Kinsley', with a long horizontal flourish underneath.

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RESPONSE TO QUESTIONS

1. Do you agree with the proposal that the principal obligation of disclosure should be changed from the current 'interest in shares' under the Companies Act 1985 to 'control of exercisable voting rights' under the Directive?

The current UK regime has enabled companies and investors to be informed of changes to major holdings in share capital, enhance effective control of those companies and ensure overall market transparency of important capital movements.

To ensure proper dialogue between companies and shareholders, it is important that companies know who holds the voting rights in its shares. There is also a wider debate regarding transparency and the need for companies to understand who is holding a stake in their shares in a broader sense (e.g. through financial instruments other than shares). Given this debate, it would be perverse if a change to the definition of disclosable interest were to lead to less transparency.

The Company Law Review states that "this change was favoured by the large majority of respondents to a consultation on company law reform undertaken by the DTI in 1995" - we feel that in the last ten years there have been considerable changes to the market and therefore the results of this consultation are outdated.

Therefore, we think that for the time being the current definition is preferable and is still consistent with the Transparency Directive. Any change in definition should be subject to a full consultation.

2. Do you agree with the proposal to remove non-traded public limited companies from the scope of the disclosure regime?

No. We believe that transparency of shareholders of all public companies (whether traded or not) is in the public interest and therefore non traded public limited companies should be within the scope of the disclosure regime.

In addition, we strongly believe that the provisions under section 212 - which allow companies to require disclosure of information about interests in their shares - should be retained. However, we would welcome clarification as to the rationale behind extending this to "all companies with shares".

However, it is important that HM Treasury take into account the views of those companies affected by this.

3. Do you agree with the proposal to give the FSA powers to make issuers admitted to trading on non-regulated markets in the UK (and those with qualifying holdings in those issuers), subject to the regime where appropriate for market transparency reasons?

Yes, we agree with the proposal to make companies that are admitted to trading on non-regulated markets (such as AIM and OFEX) subject to the regime. We believe it is just as important for companies on these markets to know about significant changes to their shareholder register as it is for companies on a regulated market.

FSA is well placed to oversee the regime for these companies, alongside its responsibilities for those on regulated markets.

4. Do you agree with the proposal to repeal the current criminal sanctions for breach of notification obligations and give the FSA powers to deal with breaches of notification obligations equivalent to those it has to deal with breaches of rules under FSMA?

Yes, it seems sensible that the sanctions for breaches of notification obligations should be aligned with other offences that come under the responsibility of the FSA. This should apply to all companies that come within the scope of the regime. Obviously, we would expect penalties to be proportionate and in-line with those imposed for other breaches.

5. Do you agree with the proposal to maintain the scope of the current Companies Act regime and give the FSA equivalent powers to require disclosures in respect of holdings of financial instruments?

The transfer to the FSA of powers equivalent to the current regime seems a sensible approach. Clearly, the Transparency Directive requires disclosure of holdings in certain financial instruments (Article 13) and it seems logical that the FSA be assigned as the competent authority to oversee this.

We would obviously expect that any changes made by the FSA to the current regime would be subject to a full public consultation.

6. Do you have any comments on the likely costs of implementation of the major shareholdings notification provisions of the Directive?

If a change in the definition of disclosable interest were to be changed (see Q1 for our comments on this) then clearly there will be one-off costs associated with this. Since we see little benefit in changing the definition, we believe any costs incurred as a result of the change to be excessive.

7. Do you have any comments on the impact on competition of implementation of the major shareholdings notification provisions of the Directive?

The UK operates a highly regarded and transparent regime and we would be concerned if the implementation of changes to the shareholder notifications provisions result in any diminution in standards.

8. Do you have any comments on the impact on small business of implementation of the major shareholdings notification provisions of the Directive?

We do not have any comments to make on this area.