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The CFA Society of the UK responds to the Kay Review of Equity Markets

The CFA Society of the UK (CFA UK) welcomes many of the findings published today in the interim report of the Kay Review into UK Equity Markets and Long-Term Decision Making.

We are particularly pleased to note that the interim report recognises that diverse holding periods are acceptable and that commonly used measures for holding periods are flawed. We also welcome the suggestion that greater emphasis should be placed on companies' ability to demonstrate the economic value that they generate in addition to the accounting profit or loss that they record.

However, there are some aspects of the interim report with which we disagree. The report states (in 2.17) that asset managers are the stewards of the funds entrusted to them by investors. That is absolutely correct and all of our members – and candidates in our educational programmes for investment professionals – agree to adhere to a code requiring them to act in their clients' interests at all times. However, the interim report goes on to suggest that asset managers 'discharge that function most effectively by acting as stewards of the corporate assets they control by virtue of their management of these funds.' This statement is flawed.

The asset manager's primary responsibility is to the client – the investor. The client's interests may be best served by active engagement with the companies in which the fund is invested. However, the report provides little evidence to suggest that investors achieve the outcomes that they seek (their risk-adjusted return objectives over their expected time horizons) more often as a consequence of active engagement. CFA UK recognises the value that engagement can provide, but also recognises that other investment strategies can be followed by investment professionals intent on acting in their clients' best interests. For instance, the client's interests might best be served by an asset manager selling the client's holding in a poorly managed company, rather than by engaging with the company on the client's behalf.

In addition, we are concerned at the report's narrow scope. The report deals exclusively with the UK equity market. If the review is concerned with UK plc's access to capital, it should consider extending the review to take in the corporate sector's engagement with the bond markets and bank lending (by far the biggest provider of capital).

Despite these few criticisms, CFA UK welcomes the publication of the interim report as a valuable opportunity for a discussion on the themes of value generation, return generation, market discipline and integrity, and the interaction between them.

For further information

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Notes to Editors

The CFA Society of the UK (CFA UK) was founded in 1955 and is a growing, influential society that represents the interests of approximately 10,000 members of the investment profession across the UK.

CFA UK is one of 136 CFA Institute member societies worldwide. We serve society's best interests through the education of investment professionals, by informing policy-makers and the public about the profession and by promoting high professional and ethical standards.

CFA UK supports the CFA and ASIP designations and is the awarding body for the Investment Management Certificate (IMC), the leading entry level qualification for investment professionals.