

# **The UK Company Bill & Foreign Direct Investment**

## **Introduction- The UK Company Bill and the Legal Framework**

The United Kingdom has been one of the pioneers in having an organized legal system for a fair and just regulatory and management environment. The legal framework is aimed at strengthening the law with a focus on promoting UK as the chief destination for business and trade.

The Department for Business, Enterprise & Regulatory Reform (BERR) has focused its efforts on nurturing aggressive and competitive market scenario in the UK as well as European Union. It enables companies to have a fair and competitive business environment offering better choice and value by fighting against the practices that become barricades for free business and market.

### ***(Better Business Framework, Introduction)***

The Company Bill is aimed at bringing improvement in the efficacy of the legal framework in order to ensure that the UK happens to be one of the best chosen places for business. It aims at resolving the complexities of business and helps to have a law that promotes trade and industry by having less stringent and flexible rules towards set up, management, share holder responsibilities in the companies in order to have an improved investment culture. It covers the legislation on internal competition and also on mergers and monopolies. The company bill has been designed to ensue that it reflects responses to modern needs of a healthy business environment for both large and small companies.

Going ahead, we shall analyze the key strengths that have made UK an attractive place for rising Foreign Direct Investment.

### ***(The Company Act 2006, BERR)***

## **The UK- A glance on the Economy and Statistics**

The UK happens to be the fifth largest economy in the world having a gross domestic product (GDP) of US\$2,192 billion (Source: World Bank, 2006). It has been forecasted to have one of the most strapping environments for trade and industry amongst all key European economies for the business phase from 2006 to 2010 (Source: EIU, 2006).

We hereby summarize the position of UK in the globe, in terms of trade and business.

- It has a population of 60.2 million (Source: ONS, 2006),
- It was the second **largest recipient of foreign direct investment (FDI) globally** in 2006 (Source: UNCTAD, 2007),
- It is a foremost global trading country, being the second largest exporter and third largest importer of commercial services, and the seventh largest exporter and fifth largest importer of merchandise (Source: World Trade Organization, 2006),

- It is a member of the European Union, the world's largest trading entity, with nearly 500 million consumers and a GDP of approximately US\$14,000 billion,
- It is one of the most competitive locations in Europe for business and personal taxation,
- It has low unemployment (with an unemployment rate well below the European Union average), and
- It has the best European city – London – in which to do business (Source: Healey & Baker, European Cities Monitor, October 2006).

*(The UK economy at a glance)*

There are several factors that foster the growth on economy in the UK. The economic growth is expected to rise at an average of 2.5% over that of 2007 (Source: HM Treasury, 2007, average of independent forecasts). The economic growth has been recorded at 2.7% in 2006. Moreover the GDP growth of the UK has outpaced that of EU.

We will now have a look at what the FDI scenario of UK is? How the legal frame work and trade policies have resulted in buoyant and mounting figures for foreign investments and what are the macro factors resulting in higher foreign direct investment.

### **Foreign Direct Investment- The UK**

The FDI scenario in the UK is very encouraging and has a healthy track record and has been able to exert a pull on foreign investment.

In 2005, UK had the second highest level of FDI stock globally with a cumulative figure for foreign investment in UK being US\$950, second to US (Source: EIU, 2006 and ONS, 2007). The UK is the single largest destination for investment by US and formed 30% of its investment in EU.

The country has had a record of second highest foreign investment globally with a mark of US\$170 billion as FDI inflows which represents 31% of the total FDI inflows to EU, in 2006. There is also a forecast of UK continuing to be the attraction for the second highest level of global FDI for the period of 2006 and 2010 and also forecasted to be the second largest outside investor globally for outward investments. (EIU, 2006)

*(UK economy at a glance)*

Inward flowing investment activity in Europe has reached a record in 2006 with 3,531 project announcements and indicates a rise of 15% compared to the record of 5.3% in its earlier year. The UK forms the major portion of the total investments of Europe, close to forming about one fifth of the portion and is expected to increase its share based on the grounds of the reforms brought in the Company Bill.

*(Wanted a Renewable Europe)*

## **The Company Bill-Major Benefits**

As mentioned earlier, the Company bill has been suited to business with more flexible standards which facilitate setting up, management and shareholder responsibilities with less stringent laws. Such a company bill has resulted in attractiveness for UK as a destination for business globally. The statutory announcements for directors' general duties make the law more convenient for business use and bring it into accord with modern business practice. Following are the points that make the difference:

### **Procedural Reforms**

- Companies can now have a better usage of electronic means of communications with shareholders.
- There is a clarification on liability for reports to the market too
- Directors are now allowed to have an option of automatically filing a service address on the public record instead of their personal addresses.
- There are better rules framed with regards to company names.
- The best amendment is that companies would no longer be under obligation to specifically list their objects.
- The company articles would now be just the continuing constitutional document and the memorandum would be considered as the formal document having records of the position at the time of registration
- For the liability of auditors, shareholders shall be able to agree limitations.

### **Private Companies Reforms**

- The model for the Articles of Association would be simpler and separate and will reflect the way the companies have their operations.
- For small companies, a separate code of accounting and reporting to be introduced which would result in better book keeping
- One of the very good reforms happened to be the non-requirement of the company secretary for the private companies.
- There is also no need for private companies to hold an annual general meeting unless and until they themselves choose this option
- It will be easier for companies to take decisions by written resolutions.
- Smaller companies are now not prohibited from providing financial assistance for the purchase of shares of their own.
- There will be simpler rules on share capital, removing provisions that are largely irrelevant to the vast majority of private companies and their creditors.

### **Shareholder Related Reforms**

- The requirements of business review shall promote higher quality narrative reporting by quoted companies.

- The Bill also has set up the criteria by which shareholders can bring an action on behalf of the company if there is any breach of duty by the director and also let the bad suits be speedily dismissed and costs of those would be personal.
- Higher rights are included for the shareholders in terms of choosing nominees and there is more right to information too.
- Proxy rights have been made more convenient for the shareholders giving better choices to let them appoint somebody else on their behalf to attend the meetings.
- Clauses of timely receipt of information have been attached too and include the use of technology to have faster decision and fewer barricades to trade and business. This also helps in decision making at the click attracting more and more foreign companies.
- There is also a clause attached for public companies to have half yearly meetings making the companies more accountable.
- The institutional investors are now required to disclose their votes and the bill also provides power to disclose their voting process too.

*(Major Business Benefits, BERR)*

### **Macro Factors boosting FDI**

#### **Exchange rates**

There have been stable and competitive policies by the UK government for encouraging pound with an aim of consistency resulting in enhanced investor confidence on the economy.

#### **Interest rates**

The competitive interest rates have resulted in better inflows of foreign investment in the country. This has been one of the major boosters for foreign direct investment.

#### **Taxation**

The economy of UK has been taxed comparatively in a lighter way. The total tax burden on businesses is below average. The chief corporation tax rate in the UK which is 30 per cent is lower than its rate in the other major European economies.

Moreover, the UK also has an advantage of the low VAT standard rates. Apart from that, it does not impose VAT on a wide variety of essential commodities including clothing of children as well as food.

**Inflation and flexible labour laws** are also an advantage acting as a major booster to FDI too.

*(UK Economy at a glance)*

## **Conclusion**

The above paper lists and discusses how the FDI inflows have been encouraged by the company bill and what have been the attractive features of the reforms boosting foreign investment in UK. The paper provides an organized and structured insight into what the aims of the Company Bill are, how it intends to promote UK as a chief destination of foreign investment. It highlights the FDI position in three parts by considering the current status of Foreign Direct Investment, the company laws immense contribution to the rise in FDI expectations as well as the macro points favoring the FDI so as to give a holistic view of the effectiveness of the reforms brought in by the Company Bill.

## References

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