

The sham of shareholder capitalism

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The FT [published a report](#) last week that commented on an important issue. That is the collapse of shareholder capitalism.

The issue is a simple one to summarise. Apparently about two thirds of all private owners of quoted shares in the UK now own their shares through nominee pooled funds. As such they are not recorded as the legal owners of these shares. They have no voting rights. And no right to attend shareholder meetings. They don't even have the right to accounts. And they have given an institution, who does not own the shares in reality, the right to exercise their vote in the company.

This matters for a number of reasons.

First, this makes a mockery of shareholder capitalism. The company has no idea who its shareholders are. And it is wholly unaccountable to them. The idea that somehow shareholders are at the centre of corporate concern is shown to be a sham, yet again, by this.

Second, this undermines audit. Bizarrely, audit reports are still addressed to shareholders. What is apparent is that many do not get them. No wonder auditing is becoming so removed from reality.

Third, this breaks down any pretence that there is effective corporate governance. There cannot be when many company members are disenfranchised.

Fourth, the concentration of power in the hands of passive nominee owners reinforces the control of a small ruling elite in quoted businesses, who are insulated by this arrangement from any real accountability whilst being able to pretend that it exists.

Fifth, this means tax fraud can be much more easily disguised.

And lastly, it shows the owners of shares just don't care and so are not the custodians for business that we need.

In essence, we have a form of capitalism that claims to be for shareholders and yet that is clearly a sham. No wonder it is not working.