

# Pre-Emption Group

Mr Nikhil Rathi  
Chief Executive  
Financial Conduct Authority  
Via email: [Nikhil.rathi@fca.org.uk](mailto:Nikhil.rathi@fca.org.uk).

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Dear Nikhil,

On 1<sup>st</sup> April this year, in light of the developing COVID-19 pandemic, the Pre-Emption Group (PEG), which I Chair, relaxed its guidelines for companies issuing shares, on a temporary basis. We issued a statement recommending investors consider supporting issuances of up to 20 per cent on a case-by-case basis. This additional flexibility reflected the fact that investors clearly wanted the companies in which they had invested to have access to the capital they needed to maintain their solvency during these exceptional circumstances.

These relaxed guidelines, which were endorsed by the FCA on 8<sup>th</sup> April, were very well received by corporates and their advisers. Since 1<sup>st</sup> April more than £30 billion of much needed additional equity capital has been raised through the market, which has obviously helped them enormously during this unprecedented period of economic uncertainty. In most circumstances, corporates have also followed the suggested process of consultation and soft pre-emption as suggested in our announcement. Additionally, the average discount to the market price has been low thereby avoiding significant dilution to retail shareholders. We believe that the support of investors and the speed of access to additional capital is a real demonstration of the social and economic value of the public equity markets.

The success of these relaxed guidelines and the worries about the second wave of Covid-19 resulted in us extending our temporary relaxation of the guidelines from the end of September to the end of November but we will be reverting to the [Statement of Principles](#) requiring full pre-emption except in specific circumstances from 1<sup>st</sup> December this year.

Reflecting on the positive feedback we have received from market participants we have realised that it is the speed and simplicity of the cash-box transaction that has made it such a useful way of raising capital. By comparison a full rights issue is very time consuming, expensive and risky and has been challenging to implement effectively in the volatile markets we have recently been experiencing, even though it clearly raises significantly more capital and respects full pre-emption. We have identified issues of timeliness, exposure to market risk, international regulatory differences and the cumbersome processes as barriers to greater use of rights issues. Combined, these factors often lead companies to take a faster and more efficient route to market, but this can then override the pre-emptive allocations of both institutional and retail shareholders.

As a result of our experience this year we believe that it is an appropriate time for the FCA to review all forms of equity capital raising for UK listed companies. Although there have been reviews of the equity capital market in the past, few significant structural changes have been made to the rights issue process in the last 30 years.

We are interested in exploring ways to speed up the capital raising process for larger issues while still respecting the pre-emption rights of all shareholders. Our initial discussions have highlighted suggestions regarding greater codification of the better practice seen this year; amendments to rights issue timelines; a greater use of technology throughout the process; and the possibility of learning from international approaches as areas for reform that may help ensure the market becomes more effective and competitive in the future. We intend to continue to gather views of market participants on the advantages and disadvantages of different options and will of course engage with Lord Hill as his review progresses. We have spoken to your colleagues at a working level, but we would very much like to have further conversations about this with you.

I look forward to hearing from you and continuing this conversation. All the best in your new role at the FRC. You have certainly chosen a fascinating and critical time to lead our key regulator. If you would like to set up meeting please let me or Hannah Armitage at the FRC ([h.armitage@frc.org.uk](mailto:h.armitage@frc.org.uk)) know and we will make arrangements.

Yours sincerely,

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