

# Pre-Emption Group

## Pre-Emption Group expectations for issuances in the current circumstances

1 April 2020

The principles of pre-emption are an important shareholder protection feature of the UK securities market to which investors remain committed.

However, in the unparalleled economic situation that we all currently face as a result of the COVID-19, investors clearly want the companies in which they are invested to have access to the capital they need to maintain their solvency.

In order to help companies raise equity capital in these difficult circumstances, the Pre-Emption Group (PEG) recommends that investors, on a case-by-case basis, consider supporting issuances by companies of up to 20% of their issued share capital on a temporary basis, rather than the 5% for general corporate purposes with an additional 5% for specified acquisitions or investments, as set out in the Statement of Principles. The Statement of Principles already permits companies to request a specific disapplication of pre-emptive rights outside of the normal thresholds, and this process should continue to be respected.

If this additional flexibility is being sought:

- the particular circumstances of the company should be fully explained, including how they are supporting their stakeholders;
- proper consultation with a representative sample of the company's major shareholders should be undertaken;
- as far as possible, the issue should be made on a soft pre-emptive basis; and
- company management should be involved in the allocation process.

In addition to the disclosures expected in the next Annual Report and Accounts, as outlined in the PEG's [Appendix of Best Practice in Engagement and Disclosure](#), any companies issuing up to 20 per cent of their capital would be expected to disclose alongside the issuance information about the consultation undertaken prior to the issuance and the efforts made to respect pre-emptive rights, given the time available.

Existing share awards should not be normalised to negate the dilutive effect of the extended issuance and the directors of the Company will be held accountable for their decisions at the AGM following its use.<sup>1</sup>

The PEG recommendation for investors to apply additional flexibility will be in place on a temporary basis until 30<sup>th</sup> September 2020. The PEG will reconvene before then to assess how companies and investors have responded to the flexibility. Following the end of the temporary period, the PEG will also carry out a wider review of the how the additional flexibility was used by companies.

For the avoidance of doubt, this statement does not signify an intention by the PEG to consider an extension beyond the 5+5% threshold applicable in normal circumstances.

### Notes to editors:

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<sup>1</sup> The IVIS [Share Capital Management Guidelines](#) provide further detail on authorities to allot shares and other issues.

# Pre-Emption Group

The Financial Reporting Council (FRC) acts as Secretariat to the Pre-Emption Group. The Pre-Emption Group issues best practice documents regarding authorities to disapply pre-emption rights. The Group represents listed companies, investors and intermediaries.

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