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**\*\*\*EMBARGOED TILL 00:01 TUESDAY 14 DECEMBER 2010\*\*\***

## **RIGHTS ISSUE FEES ARE TOO HIGH – INQUIRY REVEALS**

Following in-depth consultation with the full range of participants in equity capital raising,\* the Rights Issue Fees Inquiry (RIFI)\*\* today publishes its report,\*\*\* showing a significant portion of the fees companies pay for underwriting rights issues is not a good use of shareholders' money.

The report reveals widespread concern amongst institutional investors about the high level of underwriting fees banks charge, and the lack of transparency around how much is actually paid, to whom it is paid and what is paid for. Fee levels have been increasing for many years and remain high, despite market participants' steps to reduce significantly the risks associated with rights issues.

UK- listed companies feel that they are needlessly paying large sums of money to insure against minimal or virtually non-existent risks. This shareholder cost is ultimately borne by ordinary savers and investors.

Institutional investors are also concerned that underwriting fees are being increasingly taken by those without an interest in the long-term success of the company or in ensuring that the costs of capital raising are as low as practicable. The system is not as efficient as it should be and investors, banks and issuers need to work together to make improvements.

To ensure a better deal for companies and their shareholders, the Rights Issue Fees Inquiry today issues a number of recommendations, which include the following:

- Disclosure and transparency:
  - Issuers should be required to disclose in more detail how much is paid in fees, who is paid and what exactly they are paid for.

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- Issuers should be actively involved in compiling the list of sub-underwriters.
- Greater oversight of and improved governance of the capital raising process is required within the corporate environment.
- Competition:
  - Companies without in-house expertise in equity capital raising should use non-conflicted, independent advice.
  - Companies should consider putting underwriting out to competitive tender.
  - Investors, issuers and banks should explore how to improve the market for sub-underwriting.
- Shareholder involvement:
  - Institutional investors should develop guidance as to what they expect of their companies in a rights issue.
  - Shareholders should be more willing to be taken “off market” and engage with issuers and their advisers in an open manner.

Commenting on the report, Douglas Ferrans, Chairman of the Rights Issue Fees Inquiry (RIFI), said:

“The UK’s rights issue regime stands as a gold standard for capital raising worldwide. It works well and is widely recognised as a fair and efficient way for companies to raise capital.

“However, companies are paying too much to ensure the deal is a success. There is a significant lack of clarity around fees and a complete lack of transparency. We just don’t know who is getting rewarded and for what.

“On average companies who have had rights issues have paid ten times more in fees than that which was paid to their executive team in total reward. Whilst remuneration rightly comes under the spotlight, very little light is shone on these larger numbers.

“Companies and their shareholders are not getting a fair deal and that needs to change.”

**-ENDS-**

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### Notes to editors

\*The Rights Issue Fees Inquiry report reflects the feedback of over 60 submissions received and interviews held with leading stakeholders. The Inquiry consulted with all participants in the equity raising process, including companies, investment managers, investment banks, financial advisers and lawyers.

\*\* The Rights Issue Fees Inquiry is undertaken in association with the Investment Management Association (IMA), the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). The Inquiry was commissioned by the Institutional Investor Council (IIC), which was established by the Institutional Shareholders Committee (ISC).

\*\*\*Please click [here](#) for the full report.

### Further information can be obtained from:

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