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PRESS RELEASE

Rights Issue Fees Inquiry launches consultation

The Rights Issue Fees Inquiry (RIFI), established to look into fees charged for capital raising and set up by the Institutional Investor Council (IIC) representing the UK's largest institutional investors, has today formally launched its consultation and set out its terms of reference.

It will take into account the Office of Fair Trading's announcement on 10 June of its intention to undertake a study of equity underwriting services. The institutional investors' study will look closely at the demand side for investment banking services by the listed companies in which they invest and be complementary to the OFT's study of their supply. Investors' interest in the governance environment within which decisions are taken to use investment banks will provide an important focus for this work.

Commenting on the consultation's launch, Douglas Ferrans, Chairman of the Rights Issue Fees Inquiry (RIFI), said:

"The Inquiry is now announcing a general invitation to interested parties to make known their views on these issues. The views of companies in which our members invest will be of particular value to us, as will those of the investment community. However, the view of others, including investment banks and other corporate advisors, are also welcomed."

Responses to the invitation to comment are invited by 6 August 2010. During and after the consultation period the RIFI also intends to discuss these issues with a range of interested parties. In the Autumn RIFI will develop initial conclusions and any recommendations and invite further comment on them at that time. A final report will then be issued by the end of the year.

The Rights Issue Fees Inquiry was commissioned by the Institutional Investor Council (IIC), which was established by the Institutional Shareholders Committee (ISC). In May it announced the appointment of Douglas Ferrans as Chairman of the inquiry into rights issue fees. It is today also responding to the Office of Fair Trading's invitation to comment on the scope of its own study.

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

"The IIC welcomes the OFT's recognition of the importance of this subject which underscores the concerns of institutional investors which had already led them to set up their own inquiry. In view of the OFT's study the IIC wishes to ensure that its activities complement those of the OFT. It will focus on the demand side representing the requirements of the companies in which its members invest. Their particular interest in the governance environment within which decisions are taken to use investment banks will provide an important focus for our work. The OFT will take a particular interest in the supply side as well as looking at the demand side."

-ENDS-

Notes to editors

Below are:

- Overview of the issues
- The consultation questions
- Terms of reference
- Timetable

Further information can be obtained from:

Association of British Insurers, Erfan Hussain, 020 7216 7411

Investment Management Association, Ginny Broad, 020 7831 0898

<http://www.institutionalshareholderscommittee.org.uk>

RIGHTS ISSUE FEES INQUIRY – OVERVIEW OF THE ISSUES

The costs incurred by listed companies raising additional equity capital have long been a matter of interest to institutional investors and others. Although rights issues have been recognised to be a cost-effective method relative to non pre-emptive approaches the cost of underwriting of rights issues can be material. Between 1997 and 1999 the Monopolies and Mergers Commission undertook an inquiry following a referral from the Office of Fair Trading which believed that excess returns might have been earned by sub-underwriters. The MMC Report did not support this view but did conclude that greater competition within the underwriting process, including as regards fees and the possible use of deep-discounted non-underwritten rights issues, was necessary.

The early years of the past decade were characterised, for various market, tax and regulatory reasons, by relatively low levels of further equity issuance by existing issued companies. It is therefore difficult to draw firm conclusions as to the efficiency of the capital-raising environment over this period though it is fair to say the significance was somewhat academic. This has not been the case since the onset of the Credit crunch in 2007 and the acute phase of the Banking crisis in 2008 where a large number of rights issues, some of considerable size, have taken place when market conditions have been challenging. The impression has been given of rights issues at the most challenging times, being undertaken on terms, including level of fees charged and discount of the issue to prevailing share price, that reflected the heightened risks faced by underwriters. However, as market conditions became more benign during the course of 2009 there was little evidence of a corresponding reduction in costs.

In March 2010 the then Financial Services Secretary to the Treasury, Lord Myners, challenged institutional investors to review the UK equity underwriting process. To this end the Institutional Investor Council has commissioned Douglas Ferrans to undertake such a review and this was announced on 18 May. Subsequently the Office of Fair Trading has announced its intention to launch a market study into equity underwriting and associated services after holding informal discussions with corporate users of these markets and listening to public debate about how the market is functioning.

Douglas Ferrans welcomed the announcement by the OFT of its intended investigation of investment banking services and its request for views on its scope.

He said:

"The OFT's concerns around the supply of equity underwriting by investment banks underscores investors' own initial views. As shareholders, and responsible owners, of major UK companies institutional investors are particularly interested in the demand side for investment banking services by listed companies. Our inquiry will therefore overlap, but be complementary to, the OFT's study of their supply. Investors' particular interest in the governance environment within which decisions are taken to use investment banks will provide an important focus for our work".

RIGHTS ISSUE FEES INQUIRY - INVITATION TO COMMENT

The RIFI now wishes to invite interested parties to comment on the issues raised. General questions are posed as well as specific ones of relevance to companies and investors. However, the views of other constituencies on any of these questions, or on any other aspects of relevance, are also welcomed.

General questions

How has market practice changed since 1997?

Whether there are any outstanding legal or regulatory issues restricting the markets capacity to underwrite capital raisings?

Whether there are any issues restricting investors capacity to participate in sub-underwriting?

If there are any suggestions as to how the perceived information asymmetry between buyers (companies) and sellers (banks) of underwriting can be addressed?

Specific questions for companies based where possible on experience of equity capital raising

How much control do listed companies have over:

the structure of the deal, including decisions as to full scale rights issue, clawback issue or firm placing, discount, fees?

How much corporate decision-making takes place at full board level?

How much risk the investment banks had taken/ put their balance sheet behind the deal?

Concerns over confidentiality: how much they impinged on ability to consider alternative courses of action, use other advisers or engage in dialogue with shareholders?

How much value was added by banks, brokers, financial advisers?

Specific questions for investors

How much contact at general and specific levels with corporate and investment banks takes place and how might it be better facilitated?

How willing and able are institutions to 'wall-cross' and for how long can they be off-side?

How has willingness and capacity to sub-underwrite changed over stocks. How does this vary according to the level of over- and under- weighting in the company in question? How might these answers differ as between mainstream and non-mainstream investors?

Please respond to William Claxton-Smith wclaxtonsmith@iicouncil.org.uk or Debra Clarke dclarke@iicouncil.org.uk

THE TERMS OF REFERENCE of the Inquiry are:

To review the practices and procedures adopted when new capital is raised through the issue of equity securities to uphold the interests of companies, shareholders and markets, including:

- the role and selection of advisers and underwriters;
- how practice has evolved and is evolving in relation to the pricing and structure of capital raising;
- the level of underwriting fees relative to the changing exposure to risk and whether, and if so how, this has changed over time;
- the transparency in respect of the underwriting fees paid; and
- practices in relation to sub-underwriting, including the appointment of sub-underwriters and the sharing of risks and rewards between lead underwriters and sub-underwriters,

and to make recommendations as appropriate.

APPROACH

The Inquiry will proceed on several fronts:

- it is today issuing a public call for written evidence from interested parties;
- it will seek to gather available data about UK capital issues over time;
- it will work with the bodies representing issuers to gather views of companies which have raised capital via questionnaires and interviews; and
- it will seek the views of investors and of advisory and underwriting firms.

TIMETABLE

The following timetable is envisaged:

July:	Call for evidence and initial research
July-September:	Interviews
October - November:	Consultation on the output
December 2010:	Publication of report and recommendations