



Wednesday 18 May 2011

**INSTITUTIONAL SHAREHOLDERS CALL ON COMPANIES TO CHALLENGE BANKS ON COST OF UNDERWRITING FEES  
BEST PRACTICE GUIDANCE ON RAISING EQUITY CAPITAL ISSUED**

The Institutional Investor Committee has today published best practice guidance for companies to follow when raising equity capital through a rights issue. The guidance follows mounting shareholder concern and publication last year of the Rights Issue Fees Inquiry (RIFI), which concluded that a significant portion of the fees paid by companies is not a good use of shareholders' money. A subsequent OFT report said the onus was on companies and institutional shareholders to do more to make rights issues cost-effective. The OFT has now confirmed its conclusions including its decision not to refer this matter to the Competition Commission.

The guidance aims to help the rights issue process become cost-effective, transparent and more efficient. It outlines potential issues and suggests questions for companies to ask their advisers both before and during the rights issue process. Of key importance, is the need for companies to become familiar with the process and engage with institutional shareholders to tap into their expertise.

If followed, the guidance should ensure that costs are kept to a minimum and shareholder value is not unnecessarily eroded. Banks could no longer over-charge companies for insuring themselves against minimal risks and disclosure would make public information about who is being paid and what services they are being paid for.

Douglas Ferrans, Chairman of the Institutional Investor Committee, said:

*"Institutional shareholders take their stewardship responsibilities seriously and this guidance is intended to help us hold companies to account when they spend our money. Companies should not feel that they have no choice other than to accept disproportionately high fees from the banks.*

*They should also exercise due diligence and strengthen the governance around rights issues, familiarising themselves with the process in order to allow them to make informed decisions. We will be keeping a close eye on future rights issues to see if the guidance has been taken on board.*

*This guidance is the first stage in the work we will be undertaking to follow up the recommendations of the Rights Issue Fees Inquiry report."*

Today also sees the Institutional Shareholders' Committee (ISC) being re-named the Institutional Investor Committee (IIC) to better reflect its mandate. A new Advisory Council of practitioners will be formed.

Douglas Ferrans commented:

*"The IIC will provide a forum for a single voice and collective action on shareholder engagement. In this way we will ensure that the stewardship and corporate governance agenda is investor-led."*

**- ENDS -**

## Notes to Editors

1. The IIC's "Best Practice Guidance for Issuers when raising equity capital" can be found [here](#).
2. Information about the Office of Fair Trading's study into equity underwriting can be found [here](#).
3. The IIC is made up of the Association of British Insurers, the Investment Management Association and the National Association of Pension Funds. The Association of Investment Companies, a former member of the Institutional Shareholders' Committee, is standing down due to the change in focus of the IIC.
4. The Terms of Reference of the IIC are as follows:  
*To provide a forum through which its member organisations may:*
  - a. *consider relevant matters where it is felt a co-ordinated approach or representation may have a greater impact with UK Government and regulators; European institutions; and, any other relevant international legislative, regulatory or standard setting bodies;*
  - b. *make joint representations/recommendations on occasion and by mutual agreement;*
  - c. *present a single voice for the institutional investment industry on matters affecting its role as investors in companies;*
  - d. *encourage compliance with appropriate codes from regulatory or other relevant bodies; and*
  - e. *consider any matter affecting or likely to affect the interests of investors in companies to ensure that there is a better outcome for savers and investors.*
5. The Advisory Council will be made up of members nominated by the trade association members and appointed as individuals.

### Further information can be obtained from:

Investment Management Association, Mona Patel, Clare Murphy-McGreevey 020 7831 0898

Association of British Insurers, Erfan Hussain, 020 7216 7411

National Association of Pension Funds, Paul Platt, 020 7601 1717

