

## UK Secondary Capital Raising Review - terms of reference

### Context

In March 2021, Lord Hill of Oareford CBE published the UK Listings Review, an independent review commissioned by the Chancellor in November 2020. The Chancellor asked Lord Hill to make recommendations on how to encourage more high-quality UK equity listings and public offers. Lord Hill's independent review makes fourteen recommendations both to Government and to the Financial Conduct Authority aimed at ensuring we make full use of the opportunity presented by having regained responsibility for our own financial services rulebook.

Among his recommendations, Lord Hill calls for more to be done to empower retail investors and improve equity capital raising for existing publicly traded issuers.

He argues that UK capital markets functioned effectively during 2020 and fulfilled a key role of funding the real economy, raising around £30bn of new equity capital for companies. Lord Hill praises regulators and industry bodies for moving swiftly to assemble a package of emergency measures which aided this rapid raising of large amounts of capital.

However, due in part to the relaxation of its guidelines by the Pre-Emption Group during the Covid pandemic, much of this new capital was raised via private placings which exclude and dilute existing shareholders in the company. By contrast, only nine rights issues occurred. Given the choice between a fully pre-emptive secondary offer such as a rights issue or open offer, which offers new shares to all existing shareholders pro rata but with greater cost, time and uncertainty and involves the preparation and publication of a prospectus, and the speed and certainty of using an undocumented secondary capital raising model, companies often opted for the latter.

Citing the example of the 2008 Rights Issue Review Group – commissioned on the previous occasion markets had been asked to respond with significant new capital for publicly traded companies facing a severe economic shock – Lord Hill recommends a new group is formed to make recommendations on improving the capital raising process.

The Chancellor has accepted this recommendation and has asked Mr Mark Austin to convene and lead an independent expert review that will make recommendations on improving the UK capital raising process for publicly traded companies.

### Objective

The UK Secondary Capital Raising Review is asked to make recommendations as to how to improve capital raising processes for existing publicly traded issuers.

Its focus should include the improvement of processes like rights issues which aim to preserve, so far as is possible, the interests of existing investors in the company. Companies are more likely to choose such mechanisms if they offer them greater speed, certainty and reduced cost.

The Review should seek input and evidence from market participants, expert practitioners, representative bodies and academics. It should consider international comparators. In evaluating options, it may consider both legislative and non-legislative

measures, including measures which may fall to the Financial Conduct Authority (FCA) or industry standard setters to consider.

In developing recommendations, the Review should pay full regard to London's reputation as a world-class market for company listings that promotes high standards of corporate governance, shareholder rights and transparency.

## Scope

The UK Secondary Capital Raising Review is asked in particular to focus on:

- Whether the overall duration of the secondary capital raising process can be reduced including, in relation to rights issues, by reducing the period during which shareholders trade their rights.
- Whether new technology can be brought to bear on the process in order to ensure shareholders can receive relevant information rapidly and exercise their rights.
- Other fund-raising mechanisms that may be worth considering in the UK, including the Australian 'RAPIDS' model as well as structures to facilitate enhanced retail investor participation in capital raisings. It should also consider what barriers, if any, there are to wider adoption.
- Whether the greater transparency around short selling brought in after the financial crisis has benefited the rights issue process (noting the contribution short selling makes to price formation) and whether more can be done.
- Whether there are any other ways of improving the capital raising process by UK publicly traded companies which are consistent with the UK's commitment to high standards.
- Whether any outstanding recommendations from the 2008 'Rights Issue Review Group should be pursued.

This is not an exhaustive list and the Review may consider other matters that it considers to be relevant to its objective. In particular, it may wish to consider issues related to information provision to investors. However, the Review should remember that the Government is also carrying out a review of the UK prospectus regime. That review will consider, among other things, prospectus content and measures to eliminate disincentives to wider participation in public traded companies stemming from the public offering rules set out in the regime. It is recognised that there may well be some interconnection between the recommendations of the Secondary Capital Raisings Review and the work of the UK prospectus regime review.

## Governance, engagement and timetable

Mr Austin has been asked to provide a report and recommendations to the Government in spring 2022. It will be for him to decide the nature of any process or group he may require to support him.

The Review's work will be carried out in consultation with a cross-section of relevant stakeholders including the Government and the FCA as well as buy-side, sell-side and issuer interests, seeking input from legal and academic experts as necessary.