

Insights

UK SECONDARY CAPITAL RAISING REVIEW

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SUMMARY

The UK Secondary Capital Raising Review, led by Mark Austin, has published its proposals on how to improve capital raising processes in the UK after IPO. Initial findings include increasing the pre-emption thresholds set out in the Pre-emption Group Guidelines to 20% and empowering retail investors to participate in secondaries.

The market and the FCA has welcomed the recommendations which represent an important step in keeping the UK capital markets competitive. This is just one of a number of ongoing initiatives to make the UK a more attractive destination for IPOs and optimise the capital raising process.

Recommendations

- **Maintain and enhance the pre-emption regime**

To reflect the importance of shareholder protection in the UK capital markets, the Pre-Emption Group (“PEG”) should be put on a more formal and transparent footing than it is currently.

- **Increase the ability of companies to raise smaller amounts of funds quickly and cheaply quickly**

During the pandemic, PEG relaxed its guidelines and permitted publicly traded companies to raise up to 20% of their issued share capital. This enabled these companies to raise funds quickly and efficiently via placings. This relaxation should be re-introduced permanently subject to certain conditions including:

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- an explanation of the background to and reasons for the fundraising and the proposed use of proceeds;

- up to 10% should be available for use for any purpose and up to a further 10% should be used only in connection with an acquisition or a specified capital investment;
- as far as possible the issue should be made on a soft pre-emptive basis i.e. the allocation policy seeks to replicate the existing shareholder base;
- due consideration should be given in all placings to the involvement of retail investors and other existing investors;
- to the extent reasonably practicable, there should be prior consultation with key shareholders; and
- after the placing, companies should report to the market on how it was carried out using a short template form confirming the information above. The form would be available on a public, searchable database maintained by PEG similar to the Investment Association's Public Register. A summary should also be included in company's next annual report.

Cash box structures in undocumented placings should only be used for up to the amount of the pre-emption disapplication authority that has been granted by shareholders at the company's most recent annual general meeting, as a mechanic to increase the company's distributable reserves, which would limit their use as a mechanic to avoid the limits on pre-emption disapplication.

- **Support additional flexibility for capital hungry companies**

High growth companies including tech and life sciences may need to raise larger sums of capital more frequently and should be able to seek shareholder approval to disapply the statutory pre-emption rights for up to 75% in any one year. For companies undertaking an IPO, full details of this approach should be set out in the listing documentation.

- **Involve retail investors in all capital raisings**

It should be the default assumption that retail investors should be involved in all capital raisings. It should be open to a company to decide how best to do this and it could use one of the various market solutions and technology platforms that have already been and continue to be developed or it could include a follow-on offer that would take place after the institutional offer had closed. If this route was chosen, companies should ensure that any follow-on offer is limited to no more than 20% of the size of the placing, with a monetary cap of £30,000 per investor/beneficial owner (regardless of the size of their holding) which would further encourage retail participation on the register. This amount would fall outside and be in addition to the up to 20% disapplication authority.

- **Reduce regulatory involvement in larger fundraisings**

Under HM Treasury's reforms to the prospectus regime, a prospectus will not be required for a public offer of securities. It is recommended that the threshold at which a prospectus is required for an admission of shares to trading should be raised from 20% to 75% of the existing issued share capital. In addition, a sponsor should only be required in relation to a secondary fundraise that is connected to a material acquisition otherwise caught by the Listing Rules.

- **Make existing fundraising structures quicker and cheaper**

Rights issues and open offers do not need to be open for ten business days. This period should be shortened to seven business days and legislation should be amended to reduce the minimum notice period for shareholder meetings that are not annual general meetings from 14 clear days to seven clear days to reduce the offer timetable.

Where shares are being marketed/offered outside of the UK, companies should be able to 'opt in' to an enhanced continuous disclosure regime rather than publishing a full prospectus ie. more detailed disclosures in the annual report in certain areas such as risk factors, business overview and the operating and financial review. These measures would be less onerous and less duplicative but equate to current prospectus standards which together with a shorter offer document would be sufficient for the necessary legal comfort to be given by law firms to the underwriting banks on offerings outside the UK.

- **Increase the range of choice of fundraising structures for companies**

Various features of the Australian accelerated fundraising structures such as cleansing notices and shorter offer documents could be adopted in the UK in the near to medium term to increase the choice of structures for companies.

- **Drive to digitisation of shareholdings**

A drive to digitise shareholdings would involve moving to a system where all shareholders hold shares in fully digitised form and would ultimately provide near real-time transparency on investment decision makers and share owners.

Timing

Some of the recommendations could be actioned immediately particularly around the pre-emption regime and the involvement of retail investors. Others however will require HM Treasury to adopt legislation and so will require longer and could be implemented over the near/medium term.

[The UK Secondary Capital Raising Review proposals](#)

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