

## Equity Underwriting market study

The OFT intends to launch a market study into equity underwriting and associated services. Before formally starting the study, we are seeking views from interested parties on its proposed scope.

In 2009, companies raised an estimated £70 billion of equity capital in the UK, paying an estimated £2 billion in fees for underwriting and associated services, including advice, helping to arrange the share issue and actual underwriting. Economic growth and productivity rely on companies being able to raise capital efficiently for investment.

Over recent months we have held informal discussions with corporate users of these markets. They have expressed some dissatisfaction with these services. There has also been some public debate about the functioning of this market.

Equity underwriting has been considered previously by the competition authorities in the UK. In 1999, the Monopolies and Mergers Commission published a report on underwriting services for share offers. This followed three reports on equity underwriting which were published by the OFT in the mid 1990s. We consider that a further review of this market is now timely given the dissatisfaction expressed, and that the structure of the market has changed in the intervening years.

We have decided to consult with market participants before finalising our proposed study scope to ensure that we are focusing on the right areas of these markets and to ensure that our work complements other reviews that might be carried out on these and other related markets.

### **Proposed scope**

The OFT proposes to focus on rights issues and other types of equity-raising by large public companies, typically those in the FTSE 350, because the structures of capital-raising and the issues that arise are likely to be broadly similar across this group. We are also considering whether to look at:

- capital-raising by companies whose securities are traded on the Alternative Investment Market (AIM), and
- initial public offerings (IPOs).

As described above, the main activities to be covered are the provision of advice to companies, arranging issues and the actual underwriting. We intend to focus on the services most closely related to the financing and financial advice, rather than the legal or other services required. We do not intend to cover advice provided purely for mergers and acquisitions (M&A), although this may be relevant in some cases, nor do we intend to include debt-raising activities. To date we have not heard that users are dissatisfied with them to the same degree.

### **Key areas to be assessed**

Key areas to be assessed include:

- **How are underwriting and related services provided?** This includes looking at whether there is competition at the time when advisers and underwriters are appointed by companies and how they are remunerated for the work that they perform. It would also look at the way that the different services – such as advisory, compliance and the actual underwriting – are sold and whether this creates conflicts of interest or has implications for competition in the market.
- **How are underwriting services purchased?** This includes looking at the reasons why companies choose to raise equity capital and the options for doing so. It would also include looking at the information and advice available to the buyers of underwriting services and the incentives in place on them when they take decisions.
- **How does the regulatory environment affect the provision of these services?** – This includes looking at the rules that govern the role of professional advisers and other firms and whether they facilitate or hinder competition.

## Questions

1. Do you think our market study should focus on rights issues and other types of equity-raising for large companies, or should we look more widely, including initial public offerings (IPOs) or companies whose securities are traded on the Alternative Investment Market (AIM) as well?
2. Do you agree that the three areas to be assessed will allow us to identify the key issues in this market? Are there other issues that you think should be considered?
3. Do you believe that there are other related services or activities which should be included within this study or other work by the OFT?

## Next steps and timing

Before embarking on this piece of work we will be engaging with participants in this market and with the Government and regulatory agencies. We would also welcome comments and suggestions from other interested parties.

Interested parties should submit written views by 9 July 2010.

We will then consider the views of respondents before finalising the scope of our study. The final scope, as well as the information on the nature of the work will be presented at the time when the market study is formally launched later in Summer 2010.

Submissions on the proposed scope of the market study should be sent to:

Equity Underwriting Market Study  
Fourth Floor  
Office of Fair Trading  
Fleetbank House  
2-6 Salisbury Square  
London EC4Y 8JX

They can also be emailed to: [equityunderwriting@oft.gsi.gov.uk](mailto:equityunderwriting@oft.gsi.gov.uk)

The OFT is unable as part of this study to address or advise buyers in this market on individual matters or complaints.

The Team Leader for the review is **Jon Riley**.

The project Director is **Claire Hart**.

The Senior Responsible Officer is **Clive Maxwell**.