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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

The debate over shareholder pre-emption rights masks a bigger issue

The current economic climate has resulted in a growing number of companies seeking fresh capital, either simply to survive or otherwise in a bid to make the most of the distressed market conditions. This has re-ignited the debate about shareholder pre-emption rights potentially disenfranchising and diluting smaller shareholders. Initiatives to streamline involvement in capital raising rounds and preserve pre-emption rights for smaller shareholders are to be applauded, but in a world where investors are demanding a more hands-on role in how companies are run, this only addresses a part of the question.

Data from the Office of National Statistics has shown that private investors directly own 9.5% of FTSE100 companies and 19.4% of smaller UK listed companies. Whilst these are clearly overshadowed by institutional holdings, on the basis that shareholders have a democratic right to help shape the direction of a company, does more need to be done? So whether that's on matters of remuneration, director appointments, dividend policy, environmental concerns or indeed any other issue, can the refreshed debate about pre-emption rights have a broader reach into encouraging further improvements to corporate stewardship? Especially when set against the recent backdrop, where environmental, social and governance concerns have, for a range of very distinct reasons, each found themselves in the spotlight, it's difficult not to question why shareholders fail to exert more influence over the activities of the very companies they part own. Even just taking a look at what is happening right now, as the COVID-19 pandemic causes untold disruption to businesses globally, a minority of companies can clearly be labelled as not acting as the good corporate citizen and instead are still pursuing the mantra of 'short term profit at any cost'. And presumably this means that at least some shareholders are now less than comfortable with the actions of directors.

In reality, amongst all but the smallest of businesses, the ability for shareholders to exert real influence and engage with boards can be challenging. Not least because all too often, those shares are held via an intermediary, such as a pension or investment firm. And whilst investors can go to a retail stockbroker to build their own portfolio of shares, evolution in financial markets over the last few decades means that - in the vast majority of cases - these holdings will be registered against a nominee, either the broker, or one of its counterparties.



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So, whilst the investor still stands to receive the financial benefit, helping shape the business and its operations in those larger companies with diverse shareholdings can prove challenging. Investors do have the option of materialising holdings into physical share certificates and so appear on the register in that way, but this comes with the challenge of having to dematerialise the shares before a trade can then be made. Alternatively, some may choose to use the CREST personal account as another mechanism that allows their name to appear on the shareholder register, but again this is far from convenient. This option can only be facilitated at the discretion of those brokers who elect to provide the service, and the accompanying charges increase the cost of share ownership too.

With arrangements for certificated holders set to be further tested by the ongoing implementation of CSDR (Central Securities Depositories Regulation) does this create the opportunity for real change in accurately recording share ownership structures? By 2025, CSDR dictates that all securities will then need to be held in a dematerialised format, so should we be using this as the catalyst to see all individual shareholders named on a central electronic register? COVID-19 has put the spotlight on corporate citizenship, whilst the rush for recapitalisation underlines the fact that issuers ought to be able to communicate with all shareholders in a swift and frictionless manner. Add to this the impending regulatory change and now more than ever is the perfect time for the association between shareholders and companies to be revisited.

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