FINANCIAL CONDUCT AUTHORITY

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May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

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Dear CEO

Ensuring fair treatment of corporate customers preparing to raise equity finance

The events surrounding the Coronavirus (Covid-19) pandemic are unprecedented, with profound effects on the finances and cash-flow of many corporate issuers and the wider economy. Capital markets have a vital role in providing finance to businesses that will aid the economic recovery. We expect financial firms to continue to provide strong support and services to customers during this period of disruption.

We have heard credible reports of a small number of banks failing to treat their corporate clients fairly when negotiating new or existing debt facilities, as clients navigate the current exceptional circumstances. In particular, we have heard reports that banks may have used their lending relationship to exert pressure on corporate clients to secure roles on equity mandates that the issuer would not otherwise appoint them to. In some cases, these roles may be 'in name only', with few or no additional services being provided in exchange for a share of the fee pool. We will be looking into this further, but want any practice of this nature to cease immediately.

We are concerned that tying clients to take additional services, or demanding fees for services not provided is not in the best interests of those clients, distorts competition, undermines market confidence and calls into question firms' and individuals' integrity. This conduct is also likely to increase overall transaction costs for corporates trying to raise money.

Such conduct could be a breach of FCA rules and Principles. Firms are required to observe proper standards of market conduct (PRIN 5), act with integrity (PRIN 1), and in the best interests of clients (COBS 2.1), and prevent or manage conflicts of interest (SYSC 10.1). Firms and relevant individuals should also consider the requirements under Senior Managers and Certification Regime, including the individual conduct rules. Clauses in agreements that restrict clients' choice of providers for future business could also be a breach of COBS 11A.2.

Firms also need to fulfil their obligations under the Market Abuse Regulation (MAR) concerning the identification, handling and disclosure of inside information received in connection with the renegotiation of a corporate client's existing facilities. This includes details of a potential equity capital markets transaction. Depending on the circumstances, sharing such information within a lending bank may be inconsistent with that bank's obligations under MAR.

If we find further evidence to support these concerns, we will not hesitate to take action, as this conduct has no place in well-functioning markets. If your firm is active in both equity and lending markets we ask that you review your current systems and controls to satisfy yourself that they are appropriate for ensuring the proper treatment of clients, the identification and mitigation of conflicts of interest, and the handling of inside information. You should undertake this review having regard both to the increased volumes we expect to see in equity capital markets, and the concerns that have been raised with us to date.

We will be separately contacting your firm directly to speak to the relevant senior manager if you have had both a lending relationship and equity role with any of the issuers who have recently raised significant equity capital. We want to understand how you ensured your clients were treated fairly, and inside information was handled appropriately.

Yours sincerely

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