Banks lining up to claim their dues

Patrick Hosking , Financial Editor   Friday April 17 2020, 12.01am, The Times

Another week, another emergency capital-raising. This time it was Informa, the exhibitions organiser, putting out the begging bowl, for £1 billion. Keeping the FTSE 250 company ticking over until it can crack on again with must-see shows like Power Nigeria and World of Concrete doesn't come cheap.

With hindsight, the directors must be asking themselves whether it had really been sensible to load up the company with £2.4 billion of debt. That left it urgently needing an infusion of capital to get gearing down and keep its creditors happy.

Under the new norm, the notion that all existing shareholders get first refusal on newly issued shares has again gone out of the window. Rights issues are as popular now as handshakes. This was an offer available only to the anointed few.

There is another curiosity to this and other recent placings — the sheer number of banks with no great UK equity markets expertise being put on the placing roster, and so collecting generous fees.

Morgan Stanley, the actual corporate broker, is the joint global co-ordinator, along with Goldman Sachs. But then there is a long line of sub-advisers known as bookrunners, including HSBC, Santander and BNP Paribas.

It was the same with recent placings at WH Smith, Asos and SSP, according to some very suspicious traditional brokers. Commercial banks are again and again muscling in on what they regard as their patch. In many cases, those banks are conventional lenders to the company raising the cash. HSBC, Santander and BNP are all separately lenders to Informa via a £900 million revolving credit facility.

That raises the question of whether companies in need of the cash are being leant on to hire these banks as advisers and allow them to make some easy cash. Without doubt, say miffed corporate brokers, who add that the banks in some cases are required to do no actual work at all.

In those four placings alone, the fees amount to an estimated £30 million to £40 million. Getting hired also pushes the banks higher up closely watched transaction league tables.

Under its unbundling rules, the Financial Conduct Authority forbids banks from inserting restrictive contractual clauses in loan arrangements that would land them equity capital mandates. It goes further, saying that "unwritten oral agreements" are not allowed either.

No one is going to admit to receiving or inflicting undue pressure in these circumstances. Still, it is all distinctly rum. And once again it suggests undesirable cross-subsidies still exist within the world's biggest banks.

Don’t be gloomy

Four of the biggest American banks have set aside $18.4 billion in the past few days because they expect borrowers to default in large numbers. JP Morgan Chase alone announced loan loss reserves of $4.4 billion to cater for personal customers defaulting on credit cards and consumer loans and $2.4 billion against business loan defaults.

So are we going to see similar provisioning from British banks in their Q1 statements in two weeks? Probably not. The Prudential Regulation Authority has explicitly told them not to be too gloomy.

The new accounting standard IFRS9 was specifically designed to enable them to anticipate future losses — to smoothe the pain of future downturns. But the PRA is so worried that the losses would eat into their capital levels and dent their ability to lend it is instructing them to take a cheery view.

It’s not clear that that is necessary. Sam Woods, head of the PRA, told MPs this week that a parallel stimulus measure, the reduction of the counter-cyclical buffer, would alone reduce banks’ capital needs by £23 billion, enabling them to lend a whopping extra £190 billion.

If that’s the case, the additional concession on expected loan losses looks unnecessary. Telling bank accountants to turn a blind eye to the 1.2 million householders already having to take mortgage holidays, for example, is not especially prudent. Nor is it true and fair.

Missing the point

It’s official. The share market is not going to fall any further. Chris Woolard, interim chief executive at the Financial Conduct Authority, told MPs on Wednesday that “at the moment the market really is at a bottom point”.

The chief City regulator should know better than to make this kind of remark, which is effectively a forecast. He may well be right, but it is perfectly plausible to envisage further declines for shares.

Mr Woolard all but told people thinking of cashing in stock market investments not to do so. For youngsters, that may be perfectly sound advice in most cases, but for pensioners still fully invested in equities, and many are, it’s a more nuanced decision.

It is not the job of regulators to talk up the stock market. Note, the bear market of 1973-74 lasted 23 months, by which time UK blue chips were down 73 per cent.