Bank bosses are investigated over ‘abuse’ during equity-raisings

Patrick Hosking, Financial Editor
Wednesday April 29 2020, 12.01am, The Times

One broker said that the storm over improper pressure on borrowers could be bigger than the Libor-fixing scandal

Senior managers at some of the City’s biggest banks are being investigated by regulators over whether they improperly put pressure on borrower clients to award them lucrative equity-raising mandates, sometimes for doing no work at all.

In a strongly worded letter, the Financial Conduct Authority has told bank chief executives that it has “credible reports” of abuse taking place and wants to interview the relevant senior people.

The integrity of some firms and individual bankers had been “called into question”, the FCA said, in the wake of scores of capital-raisings in the past few weeks where traditional lending banks have been awarded mandates to help to raise equity for clients. One senior City broker said: “The duvet is being lifted. This has the potential to be as big a scandal as Libor-fixing.”

City rules explicitly forbid lenders to companies putting undue pressure on them to give them other kinds of business, or using the threat of calling in a loan or enforcing covenants as a way of exerting pressure.

In placings of recent weeks, corporate brokers, which traditionally advise on equity fundraisings, have been surprised to see conventional lending banks given valuable mandates to advise on placings. HSBC, Santander and BNP Paribas were named as advisers on the £1 billion capital-raising by Informa, the exhibitions group. All those banks were lenders to the company via a £900 million credit facility. Similarly Barclays and BNP, long-time lenders to DFS, were named as global co-ordinators to the retailer’s £64 million placing.

The FCA said: “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.”

It is particularly concerned because it could lead to companies paying too much for placings when dozens are scrambling to shore up balance sheets at a particularly difficult time. In the letter, the FCA said: “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 want any practice of this nature to cease.”

Equity capital-raisings can be extremely lucrative, with the advisers typically picking up in fees of about 2 per cent to 2.25 per cent of the cash raised.

The FCA said that it would act against culprits. It could fine firms, force them to take remedial action or ban them from equity capital markets.

Noel Quinn, chief executive of HSBC, said: “We have been involved with equity-raisings, but that is at the customers’ requests.” Other banks had no comment.

Behind the story: Watchdog’s intervention is potentially explosive
‘They do nothing, absolutely nothing,” expostulated one corporate broker this month. He was talking about how mainstream lending banks were muscling in on his patch, securing lucrative mandates to advise on the flurry of recent placings but not doing any of the work.

Sometimes it was completely cynical. In placing announcements, the corporate clients didn’t even bother to put contact details for some of their newly favoured advisers, known as global co-ordinators and bookrunners. These were the people supposed to be drumming up demand for the new shares.

Two weeks later, the Financial Conduct Authority has come to the same conclusion, saying that it has “credible reports” of abuse and is launching an investigation. According to Sky News, Numis Securities blew the whistle to the FCA, but other brokers are known to be frustrated, too.

The watchdog fears lending banks, in their quest for easy fees, are improperly putting pressure on corporate borrowers to use them for equity-raising services. Companies in danger of breaching covenants or having loans called in may feel they have little choice but to comply.

The FCA’s intervention is potentially explosive. “There is blood in the water now,” one delighted traditional broker said.

The “Dear CEO” letter is unusually strongly worded, raising concerns about the integrity of senior bankers and talking of conflicts of interest, the undermining of market confidence and the distorting of competition.

It also explicitly says that the misconduct is “likely to increase overall transaction costs for corporates trying to raise money”. Any finding that a company desperately seeking rescue capital during this crisis is being hindered from doing so by investment bankers could be explosive.

Whether the FCA will be able to prove any wrongdoing is another matter. There will be no evidence of arm-twisting in loan documents, no audit trail to suggest a loan is conditional on the quid pro quo of an equity mandate win. Any pressure is likely to have been oral only. It will require a corporate to spill the beans — dobbing in the very bank it relies upon for credit.