

IA GUIDELINES ON THE REDEMPTION OR CANCELLATION OF IRREDEEMABLE PREFERENCE SHARES

These guidelines have been prepared by the Investment Association (IA), the representative body for the UK asset management industry and institutional investors in listed companies.

The guidelines provide a useful guide to shareholder expectations and good practice and, if followed, will enable engagement on issues concerning the redemption or cancellation of irredeemable preference shares to be efficient and effective. Following the guidelines will thereby promote market confidence in irredeemable preference shares as an asset class, and avoid significant reputational risk for Issuers.

These guidelines are to be read as of general application to listed companies, notwithstanding recent focus on the issue because of expected changes to the treatment of regulatory capital for insurers¹.

The central principle of these guidelines is that Issuers must follow a fair process and have regard to the fair market price, when looking to redeem or cancel irredeemable preference shares.

As part of ensuring a fair process, consultation by an Issuer should be designed such that the irredeemable preference shareholders have sufficient time and information to enable them to reach a properly informed decision on the proposed redemptions or cancellations.

The Issuer should use this consultation with irredeemable preference shareholders to inform the Issuer's decision as to the fair market price to be offered to the irredeemable preference shareholders as compensation for any subsequent redemption or cancellation.

It is also recognised that when following these guidelines, an Issuer will need to respect the position of its ordinary shareholders and consult them equally with regard to the fair process and fair market value to be offered to preference shareholders as compensation for any subsequent redemption or cancellation.

Moreover, the Board of the Issuer will have a duty to act in the best interests of the issuer company as a whole.

The IA looks forward to continuing to work with both issuers and investors to ensure the continued orderly functioning of preference share markets. The IA encourages Issuers wishing to engage with preference shareholders to make use of the IA's longstanding Special Committee process for facilitating collective engagement.

¹ Preference share redemption or cancellation was highlighted in 2018 by the expectation that, under current regulation, preference shares issued by insurance companies will, by 2026, no longer count as regulatory capital and that as a result, affected issuers, and in many instances their equity shareholders, would favour redemption or cancellation of those preference shares.