current shareholders. Normally, the offer is underwritten, e.g., the sponsor undertakes to ensure that all the shares are taken up even if the offer is under-subscribed, so that the company receives all the money that it is seeking to raise. In order to pool the risks involved, the broker to the issue makes sub-underwriting arrangements, mainly with institutional investors.

Offers for sale normally take place at a fixed price per share. As with a placing, the price is set immediately before the offer period following discussions between the company and its financial advisers.

Less common are offers for sale by way of tender. In a tender offer, shares are offered and underwritten at a minimum price. Applicants may subscribe at any price at or above this level, and a "striking price" for all investors is determined on the basis of applications submitted. In theory, tender offers provide a basis for a more accurate market valuation of a company's shares, maximising proceeds for the company. In practice this has not always been the case, and the uncertainty and complexity can discourage private investors. Tender offers have been used where there is no comparable company already listed to use as a benchmark to determine the company's value. If the issue is small and a large oversubscription is expected, the tender offer may be used as the risk of failure may be considered minimal

2. Placings. In a placing, new shares or shares of existing shareholders are offered to the public selectively. A company's sponsor or broker sells the shares to its own client base, typically investing institutions and private clients, finding purchasers with whom the shares are then placed.

The Exchange will permit the entire issue to be placed in the case of an initial public offer of £ 15 million or less. Above this monetary limit, which applies both to the Official List and the USM, different arrangements may apply depending on the amount of money to be raised. The Exchange's rules for placings afford issuers the maximum freedom in selecting how they raise capital, while ensuring a fair distribution of shares and an appropriate level of liquidity on the secondary market.

Placings which are particularly geared to smaller companies, are the most frequently used method of making an initial public offer. Compared to an offer for sale, a placing is typically a relatively low-key operation, with less publicity and no widespread advertising. Cost may be considerably lower than for an offer for sale but the resulting shareholder spread is more limited.

3. Introductions. Where a company's shares are already widely held and the proportion in public hands satisfies the Exchange's requirements (25% for listing; 10% for the USM), their shares may be "introduced" to the market. In an introduction, no money is raised. The Exchange does not normally permit an introduction if a company has offered securities within the six months prior to it coming to the market, or if there is an intention by shareholders to dispose of shares at the time of flotation.

Further issues of Securities

A company may return to the market following flotation to raise further funds.

Where a cash offer of equity securities is made, the UK Companies Act 1985 gives shareholders the right to subscribe for new shares in proportion to their existing shareholding ("rights issue").

Rights issues are the most common form of further equity issue. In order to avoid dilution of shareholdings, shares are offered to existing shareholders in proportion to their shareholdings. To attract subscribers, rights issues usually take place at a discount to the prevailing market price. Underwriting is normally prudent to ensure that the issuer receives the funds required, unless the shares are offered at such a substantial discount that shareholders are almost certain to take up their rights. In order to give shareholders adequate opportunity to consider the terms of the issue and to take up their rights, the offer period must remain open for at least three weeks. The pre-emption right may be waived (to an extent) by a special resolution at the company's annual general meeting or at an extraordinary general meeting.

In the light of the costs and timetable involved, a company can opt to place new shares with institutions provided that the size of issue is within the terms agreed at the company's general meeting and is not issued at more than a 10% discount to the share price. A further issue of shares by way of a placing is not subject to the Exchange's limits on new issue placings.

Shares may be issued as consideration for the acquisition of a business or assets in cases where the vendor is ready to accept them instead of cash. This is more likely to be the case for quoted rather than unquoted shares, since quoted shares are marketable, and therefore normally more acceptable as a form of corporate currency.

An alternative is a vendor placing, which involves the issue of shares to the vendor together with arrangements being made on their behalf to sell some or all of the shares by placing them immediately with institutions so that the vendor receives cash. Such an arrangement does not fall within statutory pre-emption requirements, though shareholders may expect their directors to arrange for a "clawback" from the place in the case of an issue that was large in relation to the issued share capital.

The New Exemptions for Distributions of Certain SEAQ and SEAQ International Securities

The Exchange seeks exemptions from rules 10b-6, 10b-7 and 10b-8 for distribution participants and their affiliated purchasers (as defined in rule 10b-6(c)(b)(i) and (ii)) ("relevant parties"), in connection with transactions effected during distributions of certain SEAQ and SEAQ International securities:

- A. United Kingdom securities.
- 1. Securities.
- 1.1 The security being distributed ("qualified UK security") must:—
- (a) be issued by (i) a foreign private issuer as that term is defined in rule 3b-4 under the 1934 Act, which issuer ("UK issuer") is incorporated in the British Isles and has

- outstanding a component security of the FT—SE 100¹ or (ii) a subsidiary of a UK issuer described in paragraph A1.1(a)(i); and
  - (b) satisfy one of the following:
- (1) be an equity security of a UK issuer which security has an aggregate market capitalisation equal to or greater than \$1 billion (£660 million) and a world-wide average daily trading volume that equals or exceeds \$5 million (£3.5 million) as published by FFRAs and any U.S. securities exchanges or automated inter-dealer quotation systems, during a period that is 20 consecutive business days in London within 60 consecutive calendar days prior to the commencement of the covered period for UK issuers ("reference period for UK issuers"); or
- (2) be a security that is convertible into, exchangeable for or a right to acquire a security of a UK issuer as described in paragraph A1.1(b)(1).
- 1.2 A "relevant UK security" is a qualified UK security, a security of the same class and series as the qualified UK security or a right to purchase the qualified UK security.
- 2. Transactions effected in the United States.
- 2.1 Transactions in relevant UK securities effected in the United States shall comply with rules 10b-6, 10b-7 and 10b-8, unless otherwise excepted or exempted from the operation of these rules.
  - 3. Transactions effected in the UK.
- 3.1 Transactions in relevant UK securities during the covered period for the qualified UK security that are effected in the UK shall be conducted in compliance with UK law. For the purposes of this exemption, the term "covered period for the qualified UK security" means: (i) in the case of a rights issue, the period commencing when the subscription price is determined and continuing until the completion or abandonment of the distribution in the United States; and (ii) in the case of any other distribution, the period commencing three business days in London before the price is determined and continuing until the completion or abandonment of the distribution in the United States; provided, that the covered period for the qualified UK security shall not start with respect to any relevant party until such person becomes a distribution participant.
- 3.2 All transactions in relevant UK securities during the covered period for the qualified UK security effected in the UK shall be effected on or reported to the Exchange, the London International Financial Futures and Options Exchange Limited ("LIFFE") or the Securities and Futures Authority Limited ("SFA").
- 3.3 Disclosure of trading activities.(a) The inside front cover page of the offering materials used in the offer and sale

<sup>&</sup>lt;sup>1</sup>References to the FT–SE 100 refer to the composition of the index on the date of this letter. Any security added to the FT–SE 100 after the date of this letter will be treated as a UK security if its issuer satisfies the criteria in paragraph A1.1(a) and the security satisfies the requirements in paragraph A1.1(b)(1). Any security which ceases to be a component security of the index or otherwise meet the eligibility requirements in paragraph A1.1(b)(1) shall cease to be eligible for this exemption.