ShareSoc
UK Individual Shareholders Society

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To
Henry Postlethwaite, Market Integrity Unit, FCA
Mark Steward, Executive Director of Enforcement and Market Oversight, FCA
Marcus Stuttard, Head of AIM & UK Primary Markets, LSE

Dear Henry, Mark and Marcus,

Share Price Movements Prior to Placings

I am writing to share ShareSoc's concern about share price movements prior to placings. Our particular concern on this occasion is at the smaller end of the Main Market and AIM. What has prompted this letter is Bacanora Lithium, but I can easily give you other examples if you wish.

This tweet, from @DonaldPond6, who is a well-respected tweeter with 2,291 followers, gives the key background:

I know from our discussions that the FCA now have some super-duper software that lets you see transactions in shares of companies listed on the Main Market and AIM. This ability was mentioned by Mark Steward in his presentation in August 2020 to our members and I recall him saying that the FCA receive many complaints but in almost all cases they find there is no criminal activity. I have since repeated his point and continue to support the FCA whenever I can.

However, there remains the continuing lack of confidence out there in the market place. I suggest that it would be good for the FCA, the LSE and the markets if confidence levels to were higher. Therefore I ask you to consider:

1. Reviewing a sample of cases (e.g. 6), where the price has increased sharply in the month before the placing announcement, including Bacanora Lithium.
    a. The review would look at those people/companies/funds who had sold in the month before the announcement and consider if news of the announcement could have leaked to them. I know that if there was a strong case that someone had traded using inside information, they would be prosecuted. I am not raising concerns as to the probity of that process. However, I am interested if there are cases where there is only a 25% or 50% chance that the evidence suggests the data has leaked, i.e. not enough to convict on , **but enough** for people to have concerns about the way the market is operating.
    b. The review should also examine whether individuals and institutional investors who sold in the month before the placing subsequently bought back in, either via the placing or soon after. It would be good to know the scale of this activity. Of course doing so is not ipso facto evidence of misdoing. It is quite possible for an experienced investor to read the charts and analyse the cash flows and news flow via RNS and chat rooms and come to the conclusion that the share price is too high (e.g. this would appear to be what @DonaldPond6 has done). If there is evidence that the share price has inflated before the placing, I would also like you to investigate if the directors may have created a false market by an RNS or a series of positive RNS's.
2. Whether a company where the directors have identified the need for a placing should be suspended for say 1 week (or 1 month), thus stopping share purchases and sales by any shareholders who are not privy to this knowledge.
3. Whether the placing process can be accelerated to say 3 days. Modern technology and ZOOMS/TEAMS make it much easier and quicker to communicate with shareholders and get their support for a placing. Times have changed from the old days when a broker in a bowler hat had to walk around the City visiting the offices of the various fund managers and key institutions getting them to sign up. It looks like the current system is still based on the old ways and old timetables. I may be flying a kite here, but it might be worth you giving this kite a little thought?

The FCA has a duty of care to individual investors to ensure they are treated fairly and that there is a level playing field. The Bacanora Lithium case and others raise doubts as to whether the FCA's goals are being achieved in placings.

My fellow directors and I would be happy to meet via ZOOM/TEAMS to discuss this if you wish.

I have written this letter to both LSE and FCA as the regulation of AIM companies is partly undertaken by you both. I have not circulated it wider at this stage. I hope that we can have a discussion and you can give me comfort that you will look at this.

We followed this informal approach recently with Aviva. The issues was that the FCA had censured Aviva very publicly (re Irredeemables) and we suggested to Aviva that bonuses/remuneration should be clawed back/adjusted downward to a significant extent to signal to the outside world that Aviva had not only heard but had **reacted** to the FCA message. ShareSoc received a detailed response to our letter to Aviva. However it was clear from Aviva's response that they had no intention of doing anything significantly different as a result of our letter. So we moved to the next stage of sending them an Open Letter and explained we will also raise our concerns via a question at the AGM.

I hope the Aviva example illustrates the purposeful way we can engage with organisations. We much prefer to start with an initial meeting and are quite happy get agreement to change things behind the scenes without a public spat. However when it is necessary and justified we will pull all the levers available to us.

The issue of placings, colloquially referred to by some as "Pump and Place" needs to be looked at. We look forward to hearing from you.

Yours sincerely,

Cliff

Cliff Weight,
Director

Copies to
Mark Northway, Chairman, ShareSoc
Paul De Gruchy, Director, ShareSoc