



Treasury Committee

House of Commons, Committee Office, London SW1A 0AA

Tel 020 7219 5769 Fax 020 7219 2069 Email treascom@parliament.uk Website www.parliament.uk/treascom

Andrew Bailey
Chief Executive
Financial Conduct Authority
25 The North Colonnade
London
E14 5HS

20th March 2018

Dear Andrew

Aviva plc – preference shares

The Committee is receiving a large volume of correspondence regarding statements made by Aviva plc regarding the cancellation of preference shares.

On 8 March 2018, Aviva plc made its preliminary results announcement for year ending 31 December 2017. The Chief Financial Officer's report, which formed part of that announcement, stated that:

“we have the ability to cancel preference shares at par value through a reduction of capital, subject to shareholder vote and court approval.”

During the presentation on the results, Aviva's Chief Executive stated that:

“You should note that we have the ability to cancel these prefs at par, with shareholder approval. These prefs carry very high coupons and will no longer count for regulatory capital from 2026. In addition, we are in a very fortunate position with our cash and capital that we now have the ability to do something about it. So we intend to.”

And later in that same presentation, Aviva's Chief Financial Officer said:

“While we have not taken any decisions, we note that these securities are subject to cancellation at par upon a capital reduction approved by ordinary and preferred shareholders voting as a single class.”

Following the results announcement and presentation, the price of preference shares issued by General Accident and Aviva fell by 20-30 per cent. The value of sterling-denominated preferences shares generally also fell.

Aviva issued further information on 15 March and 17 March. The 17 March document stated that:

“Neither this document nor the additional information provided [on 15 March] should be taken as a statement of the Company's intent either with respect to any decision to return capital on the preference shares, the mechanism of cancellation or the amount per

preference share to be returned, and no inference of such intention should be made. No decision has yet been taken”.

The issue engages the FCA’s strategic objective to ensure that relevant markets function well, and its operational objectives of consumer protection and the integrity of the financial system. It is also relevant to its responsibilities as the UK’s listing authority.

I would be grateful to have your general reflections on the FCA’s approach to this case, as well as answers to the following questions:

- Is the FCA satisfied that Aviva management’s assertion that these shares could be cancelled at par value with the approval of ordinary and preference shareholders voting as a class was communicated in a manner that was consistent with the Listing Rules, and the Disclosure and Transparency Rules?
- Is the FCA satisfied that Aviva management’s intention to cancel these shares at par value was communicated in a manner that was consistent with the Listing Rules, and the Disclosure and Transparency Rules?
- How far does the fact that Aviva preference shares were originally marketed to retail investors alter the FCA’s approach to this issue? If the FCA considers that the information provided regarding the redeemability of these shares was misleading, what options are available to it?
- What is the FCA’s role in resolving any dispute regarding whether the preference shares are in fact redeemable?
- How far does the fact that Aviva plc has subsidiaries that are authorised by the FCA, and carry out regulated activity, alter its approach to this issue?
- What options are available to the FCA to address concerns about the functioning of the wider market for preference shares, including concerns about their redeemability?

I would be grateful for a response by 30 March. Given its potential market sensitivity, I will place this letter in the public domain via the Regulated News Service. Accordingly, I am content for the FCA to publish its response to this letter as it sees fit.

Morgan
Nicky

The Rt Hon. Nicky Morgan MP
Chair of the Treasury Committee