

SALE OF THE PRIOR CHARGES OF SEVEN STEEL COMPANIES, MARCH 1961

Some of the problems involved

At the beginning of March the Iron and Steel Holding and Realisation Agency made a simultaneous Offer for Sale of twelve prior charge securities of seven major steel companies, comprising debenture and loan stocks to a nominal amount of over £73 million and some 32 million £1 preference shares of various classes, involving cash subscriptions totalling £85 million in all. This was almost certainly the most complicated and, in terms of money raised though not of applications received, the largest commercial issuing operation undertaken in the London market in recent years. A brief description of some of its features may illustrate a few of the problems to which such a sale can give rise.

In essence, an Offer for Sale is a simple operation. The main stages are: drawing up the formal Offer; arranging the underwriting; advertising; receiving applications; allotting stock or shares to the applicants and, where necessary, to the underwriters; collecting cheques and returning surplus application money; and the eventual registration of the subscribers after all instalments of the price have been paid. Ordinarily, the difficulties that arise stem from the need for speed in handling applications and allotments and from the problems of size which a large response can involve.

In the present case, the Offers for Sale were sponsored and the underwriting arranged by a Consortium of eight issuing houses led by Morgan Grenfell & Co. Limited. The preparation of each formal Offer and of the form to be used in applying for the stock or shares in question was undertaken by the member of the Consortium handling the particular steel company's business. These activities were co-ordinated by a Steering Committee consisting of representatives of the Consortium, the Iron and Steel Holding and Realisation Agency, their respective solicitors and the Bank of

England. This Committee also dealt with the preparation of many documents in connection with the underwriting arrangements. The role of the Bank of England was to act as receiving banker, taking in the applications and the accompanying cheques, allotting the stock and shares and sending out the Letters of Acceptance which are evidence of the allotments made, and dealing with the many other arrangements involved before registration is complete. It is with these processes therefore that this note is mainly concerned.

Applicants are of course anxious to know as soon as possible whether or not they have received allotments and, if so, for how much. They are also anxious to receive their documents of title as soon as possible, so as to be able to sell the stock if they so desire. Those who have been unsuccessful will hope for their application money back quickly. Careful preparation by the receiving banker is necessary if the various processes are to be carried through sufficiently rapidly and with, as far as possible, complete accuracy. With this issue there was an obvious risk of confusion between the various securities offered, especially as for several of the companies more than one security was involved. A distinctive symbol was therefore chosen for each security and was printed prominently on every document relating to that security. As a further precaution it was arranged that all the forms required in connection with each security should be printed in an ink of a particular colour. Finding twelve separate coloured inks, easily distinguishable one from another both in daylight and in artificial light, presented its own problems.

Forms used by the Bank were prepared at their Printing Works and an indication of the complexity of the multiple Offer is given by the fact that for this operation more than 200 different types of form were needed.

These included Letters of Acceptance (the initial document of title issued to successful applicants), lodgment forms on which documents are listed by the presenter prior to being lodged with the Bank, registration application forms for recording the names and addresses in which stockholdings are ultimately to be registered and numbers of internal forms used only by the Bank. Two types of Letters of Acceptance were needed, one appropriate for allotment in full and one for partial allotment. Both needed to bear receipt stamps to cover the payment of subsequent instalments. Because of the difficulty of having documents stamped in large quantities at short notice or at week-ends, arrangements were made for the advance printing and subsequent stamping at Somerset House of 10,000 Letters of Acceptance for each security, half for partial allotment and, exceptionally, half for full allotment. Of the latter, 500 were printed for the allotment in full of £100 stock or 100 shares. A further 10,000 blank forms were stamped to provide a reserve, available for the printing at a later stage, when requirements could be better estimated, of extra supplies of those denominations for which a large number of applications was received. In addition specially over-printed Letters of Acceptance were prepared and stamped in advance so that they would be available for issue to holders who asked for their original Letters to be split into Letters of smaller denominations.

The Offers for Sale were advertised in six newspapers on Monday, the 27th February. A complete page of application forms for the twelve securities, each with its appropriate symbol, was printed in the newspapers carrying the advertisement of the Offers for Sale. Abridged advertisements appeared in other daily newspapers on that day and in certain Sunday newspapers the day before. As a result of these abridged advertisements, the Bank received several hundreds of postal requests for printed application forms; forms were also issued to those who called at the offices of the brokers to, and members of, the Consortium, head offices and principal branches of the London Clearing Banks, the Scottish banks and Northern Irish banks and the Bank of England, while the seven companies respectively sent copies of the Offers for Sale and application forms to their shareholders.

The first completed application forms were received on Monday, the 27th February; on Tuesday 3,000 and on Wednesday over 8,000 applications were received by post. The lists were open from the opening of business on Thursday, the 2nd March, until 3 p.m. on Friday, the 3rd March. By the time the lists closed some 47,600 applications including those from the underwriters had been received. Of this total, about 26,000 were received by post of which 15,000 were on forms cut from newspapers. To preserve the colour sorting scheme the latter had to be stuck on the appropriately coloured application forms.

As applications were received, they were sorted (with their accompanying cheques still attached) according to security, listed on machines to show the number of applications and the total stock or shares applied for, checked, and then sorted and summarised by denominations. From these summaries, analyses were prepared mechanically for each security. The cheques and application forms were then serially numbered and separated, the cheques being put forward for collection after being micro-filmed and the applications made up into parcels of 25. The application forms were kept in these parcels for all subsequent processes, namely, the writing of envelopes, the completion of Letters of Acceptance and of mechanically produced registers, the writing of any cheques required for the return of surplus monies, checking and, finally, the filling and sealing of envelopes. Many of these processes could not be carried out until the basis of allotment had been decided. The early sorting of applications by denomination enabled sample figures to be assembled quickly so that by the evening of Friday, the 3rd March, it was possible to decide that all applications for £100 stock or 100 shares could be accepted in full for each security. This decision, together with the acceptance in full of all applications for The Steel Company of Wales Limited 5½% First Debenture Stock 1980/85, the only stock which was under-subscribed, allowed work to be started at once on the writing and checking of some Letters of Acceptance.

An allotment meeting was held at the Bank on Saturday morning, the 4th March, attended by the Chairman of the Iron and Steel Holding and Realisation Agency and representatives of Morgan Grenfell & Co. Limited to decide the

basis of allotment for each security. The Agency decided that, in principle, small applications should be favoured and ceilings should be set for the larger applications, the limits depending on the response to each security. The percentage allotted to applicants for amounts above those allotted in full but below the ceilings laid down varied for each security. The rounding up or down to the nearest multiple of £100 stock of allotments, calculated on a percentage basis, normally requires some adjustments to be made to ensure that an issue is allotted exactly. Care has always to be taken that all applications for the same amount of stock receive an equal allotment and usually any adjustments that are necessary are made to the largest applications. On this occasion, because the larger applications were limited to a maximum allotment, adjustments had to be made to applications for smaller amounts. This complicated the procedure for deciding the exact basis of allotment.

The underwriters' commitment is normally to take up that proportion of an issue not subscribed by the public.^(a) On this occasion underwriting was divided into 10,000 units, each unit consisting of a fixed amount of each security. As was stated in the Offers for Sale the underwriters agreed to put in special applications for 75% of their commitments for each security. They had to choose in advance whether they wished such applications to be allotted in full, whatever the public response ('firm'), or treated on the same basis as applications from the public ('soft'). Underwriters agreed to make one choice to cover all securities. The remaining 25% of their commitments was available to cover any balance of each security not applied for by the public.

To avoid the completion of large numbers of application forms by the underwriters and to simplify the handling of their applications by the Bank, a special document in three parts was prepared; part served as a letter from the Consortium to the underwriter offering him a number of units, part as the acceptance of the Offer, and the third part as the application form for the twelve securities. To this document the Bank attached a form on which the total of stock or number of shares of each

security represented by the number of units applied for and the amounts payable on application and subsequent instalments were stated. These forms were devised so that they could be used for both 'firm' and 'soft' applications and for the allocation of any balance of any security not taken up by the public.

In contrast to the procedure adopted for applications from the public, under which, after the initial sorting, applications for each security were kept separate, the twelve Letters of Acceptance for each underwriter were prepared and checked together. The 'firm' applications were dealt with as soon as they were received from the Consortium, but the 'soft' applications had to await the allotment decision. The allocation to underwriters of their proportion of the amount under-subscribed for The Steel Company of Wales Limited 5½% First Debenture Stock 1980/85 also had to wait until the exact subscription for this stock was known.

The final processes involved the sorting and checking of envelopes for postal purposes into "town" and "country". All envelopes relating to a particular security were posted at the same time but, to spread the work, the time of posting for particular securities was staggered. The last envelopes were delivered to the Post Office at 1.30 a.m. on Monday, the 6th March.

Much time was spent in dealing with more than 1,200 defective applications, cheques that were unsigned or completed for wrong amounts, applications for amounts other than multiples of £100 stock or 100 shares, etc. Every effort was made to have these errors corrected in time for the relevant applications to be included and in this much help was given by those banks whose customers had completed forms or cheques incorrectly. Many hundreds of applications were also received on and after Saturday, the 4th March, that is after the closing of the lists; these had to be returned.

The complexity and size of the operation required the secondment of some two hundred extra staff so that in all a total of three hundred and fifty people were directly occupied with the issue besides the many involved at the Bank's Printing Works.

^(a) For the sake of simplicity no distinction has been drawn in this note between underwriters and sub-underwriters.

Once the Letters of Acceptance had been despatched many further processes remained—and still remain—to be carried out, the splitting of Letters of Acceptance into smaller denominations, the receipt of instalment monies and the processing and despatch to the companies' registrars of registration application forms and the issue of registration receipts. The amount of time taken by these processes much exceeds that required to handle the initial work processes. The whole operation will not be finished until the registration of The Steel Company of Wales Limited 5½% First Debenture Stock 1980/85 has been completed, probably at the end of 1961, about a year from the time when the detailed preparations began.

The following is a list of the twelve securities involved and the prices at which they were offered:

£9,640,000	Colvilles Limited 4½% Debenture Stock 1975/85	at £75 per cent.	£9,600,000	The United Steel Companies Limited 4¾% Debenture Stock 1968/78	at £81 per cent.
£3,924,150	Consett Iron Company Limited 5% Redeemable Debenture Stock 1975/85	at £81 per cent.	4,000,000	Colvilles Limited 5½% Cumulative Preference Shares of £1 each	at 15s. 6d. per share.
£10,000,000	Dorman, Long & Co., Limited 4½% Unsecured Loan Stock 1969/74	at £80 per cent.	5,000,000	Dorman, Long & Co., Limited 5½% Cumulative Preference Shares of £1 each	at 15s. 6d. per share.
£40,000,000	The Steel Company of Wales Limited 5½% First Debenture Stock 1980/85	at £87 per cent.	5,000,000	Stewarts and Lloyds, Limited 5½% Redeemable Cumulative Preference Shares of £1 each	at 15s. 6d. per share.
			5,000,000	Stewarts and Lloyds, Limited 5½% Cumulative Preference Shares of £1 each	at 15s. 6d. per share.
			4,000,000	John Summers & Sons Limited 5½% Cumulative Preference Shares of £1 each	at 15s. 6d. per share.
			5,097,000	The United Steel Companies Limited 4½% Cumulative Preference Shares of £1 each	at 12s. 9d. per share.
			4,000,000	The United Steel Companies Limited 5¾% Redeemable Cumulative Preference Shares of £1 each	at 16s. 3d. per share.