HMRC - STSM055030 - Allotment And Renounceable Letter Of Allotment

Allotment Letter

If a public company announces a bonus issue or a rights issue of new shares, the company will usually issue a letter of allotment. This is a letter sent to the prospective subscribers, i.e. the existing holders of shares in the company in respect of which the offer is made, saying that a number of new shares have been allotted to them in proportion to their existing holding, free of payment (commonly called a bonus or scrip issue), or inviting the shareholder to subscribe by paying for some or all of the new shares provisionally allotted to them in proportion to their existing holding. The offer gives a shareholder a right but not an obligation to subscribe for additional shares.

In this situation, the shareholder may pay for the shares in full but the shares will not be issued until some time later when the offer to subscribe is closed.

The letter is commonly known as a Provisional Allotment Letter as the allotment of shares remains provisional until the shareholder has accepted the offer and paid for the new shares. If a shareholder decides not to take up the offer by the closing date, the allotment letter will lapse.

Renounceable Letter of Allotment (RLA)

A public company will usually issue renounceable letters of allotment to its existing shareholders allowing them to subscribe for further shares. While the RLA remains provisional until such time the shareholder has accepted the offer and paid for the new shares, the letter has some value, as it provides the shareholder with the right to acquire new shares at below the current market price, or alternatively renounce i.e. sell, the rights to subscribe for the shares to a third party.

Similarly, if a shareholder decides not to take up the offer at the end of the renunciation period, the allotment letter will lapse.

See STSM055040-STSM055100 for stamp duty and stamp duty reserve tax implications when a PAL or RLA is deposited with a depositary receipt issuer or clearance service.

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