Corterum

Conduct Rules Scenarios
Letscoff IPO

Scenario

You are the Senior Manager in charge of the corporate advisory division of Mega Bank PLC. You and your team have been appointed to advise on the initial public offering (IPO) of shares in Letscoff, the food delivery app.

The shares of Letscoff were initially priced at a target range of between 460p and 390p.

Last week, one of your salespeople, Andy Fraser, (a Certification Employee) told a set of institutional investor clients that the institutional book was four or five times oversubscribed and was a "no brainer" in terms of an investment. The salesperson knew that he had no real basis for this assertion. In reality, it is known within Mega Bank that demand for Letscoff shares is very low due to concerns about the company's business model and general profitability. Relying (at least in part) on this statement, a number of institutional clients choose to invest in the Letscoff IPO.

As it turned out, it seems that the institutional book was not oversubscribed at all. In the last few days before the IPO, the target range had narrowed to between 410p and 390p. On the day before the IPO, the opening price of shares in Letscoff had been set towards the bottom of its target range at 390p.

On the first day of trading, shares in Letscoff app fell 26%, wiping almost £2 billion from its opening £7.6 billion market capitalisation.

A number of clients who invested have complained about the losses they have suffered, feeling that they have been misled by your team.

What conduct rules may have been breached? Why?
How should the firm respond?
What controls could have been implemented?