



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

European Parliament
Rapporteur and Shadow Rapporteurs
Rue Wiertz 60
1047 Brussels

16 October 2023

Dear Members of the European Parliament,

Subject: Proposal for a Directive on multiple-vote share structures

The International Corporate Governance Network (ICGN) would like to offer its perspective on the proposal for a Directive on multiple-vote share structures¹, ahead of the vote in the Economic and Monetary Affairs (ECON) Committee on 24 October 2023.

Led by investors responsible for assets under management of \$77 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. The ICGN Global Corporate Governance Principles - written by market participants - are widely used by investors in their company assessments and voting decisions, and by regulators when developing corporate governance rules. The EU Corporate Sustainability Reporting Directive refers to the ICGN Principles as an authoritative global framework of governance information of most relevance to users.²

The ICGN supports measures that increase public capital markets' attractiveness and encourage companies to go public. We also understand the need to harmonise rules regarding multiple voting rights in the EU Single Market. When doing so, we encourage the European institutions to ensure that the proposed measures do not expose investors to undue risk, which could have potentially implications for underlying beneficiaries, including pensioners and retail investors' savings. **We recommend that the Directive introduces a set of minimum mandatory safeguards, applicable in all EU Member States.**

Shareholders have a residual claim on the company's income and bear the ultimate economic risk. This is why they have the right and responsibility to vote on important company decisions. According to corporate governance best practices, when a shareholder holds one share, they get one vote. Their influence on the company's decision-making is proportionate to their economic exposure. This standard ensures the equal treatment of all shareholders; increases the board's accountability; and alleviates conflicts of interest around major transactions.³

Some markets allow 'multiple class shares' with unequal voting rights. This means some shareholders may have more voting rights than others, disproportionate to their economic interest in the company. Such structures can be used to give a company's founders or early investors more control, allowing them to implement their vision without perceived obstacles whilst raising equity capital.

¹ [Proposal](#) for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on multiple-vote share structures in companies that seek the admission to trading of their shares on an SME growth market

² Directive (EU) 2022/2464, recital 44

³ [ICGN Viewpoint differential share ownership](#), 2017

Unequal voting rights are problematic because they dilute the voice of minority shareholders. They may allow founders and controlling shareholders to monopolise the decision-making and maximise their private benefits rather than company value. This can put minority shareholder interests at risk. Furthermore, at a time in which EU institutions encourage investors to play a greater, and more responsible, role in monitoring company governance and engaging with companies, the imposition of unequal voting rights has the effect of watering down their influence. Voting helps investors hold company boards accountable. For example, investors may decide to vote against the re-election of board members when they have not taken any measures to manage climate change risk. They may vote against the CEO's remuneration plan if it does not incentivise him/her to act in the long-term interest of the company. Voting is an important escalation tool in company engagement.

The ICGN Global Governance Principles⁴ emphasise the importance of equal voting rights for all shareholders. The ICGN's position is that divergence from a 'one-share, one-vote' standard should be avoided. In the event of the existence of multiple class shares, we recommend that strong safeguards be in place, such as:

- **Sunset clauses** - Any multi-class share mechanisms should automatically lapse after a certain period (for instance five years). Empirical research shows that any benefits of dual-class share structures seems to dissipate after five to ten years. The research indicates that over time, and on average, the valuation of these firms tends to decline. See for instance the paper from Harvard Law School researchers Lucian A. Bebchuk and Kobi Kastiel⁵, the studies from the European Corporate Governance Institute⁶, the CII Research and Education Fund (August 2023)⁷ and former US SEC Commissioner Jackson⁸.
- **Voting ratio** - The maximum enhanced voting ratio that can be attached to superior voting rights shares should be limited (no more than 5:1)
- **No transfer** - Only a director of the company should be allowed to have superior voting rights and these should automatically convert to ordinary shares upon the holder ceasing to be a director of the company. If the rationale for allowing superior voting rights is to make sure the founders of the company can implement their vision without obstacles, we do not see why these shares should be transferred to third parties.
- **Key decisions** - Minority shareholders should, at the minimum, have the right to an equitable say in decisions that can materially impact the investment case for the company (e.g., major mergers and acquisitions transactions, change of control, etc.).
- **Disclosures and review** - The company should explain why it has chosen such share structure. There should be an adequate number of independent directors to act as a check on any controlling owner influence and to help ensure minority shareholder rights are upheld. There should be an annual review of the share structure by the board and an annual binding shareholder vote on whether to remove the multiple-class share structure (by single-vote shareholders, at a majority).

We recommend that the Directive introduces this set of minimum safeguards, applicable in all EU Member States, rather than mentioning these as optional. In our view, **Member States with already existing national provisions on multiple-vote share should also introduce these safeguards.**

⁴ [ICGN Global Governance Principles](#)

⁵ Lucian A. Bebchuk and Kobi Kastiel, "The Untenable Case for Perpetual Dual-Class Stock," 103 Va. L. Rev. 585- 631 (June 2017), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2954630

⁶ Martijn Cremers, Beni Lauterbach and Anete Pajuste, "The Life Cycle of Dual-Class Firms," (November 2017) at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3062895

⁷ James Crowe, "Dual-class structures and classified boards: Evidence from 2018-2023" (August 2023), CII Research and Education Fund

⁸ https://www.sec.gov/news/speech/perpetual-dual-class-stock-case-against-corporate-royalty#_ftnref21

The ICGN is concerned by the “race to the bottom” that is taking place in many markets, in which the relaxation of past multiple voting rights limitations is regarded by some policymakers, regulators and stock exchanges as justified to attract market listings. We are concerned by the dilution of investor protection mechanisms, given the important stewardship role investors play in holding corporations to account for preserving and enhancing long term value creation. We believe the weakening of corporate governance standards is more likely to lower the reputation of these markets over time.

Thank you for the opportunity to share our perspective and we remain at your disposal should you have any questions or comments. In this regard, please contact our Global Policy Director, Séverine Neervoort (severine.neervoort@icgn.org).

Yours faithfully,



Kerrie Waring
Chief Executive Officer, ICGN

Cc: Catherine McCall, Chair of ICGN Stewardship Committee