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- A briefing by
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- *"Better Regulation in EU Company Law, Process and Substance"*
 - *Conference in Helsinki on 5th October 2006.*
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Questions

- Q1:
 - A. What type of shares companies and investors will need?
 - B. Are regulations or recommendations at EU level necessary?

- Q2:
 - A. Dual-class shares: a major or minor problem?
 - B. Are dual-class shares' voting difference a problem or their price difference?
 - B. If legislation, what level?

Background – An investor’s view

- Different structures and circumstances vs potential fair treatment in conflicts

Voting difference
 Dividend difference
 Bondholders/shareholders
 Large shareholders /small shareholders
 Long term owners (family, the state etc) / short term investors or "speculators"
 Inside shareholders / outside shareholders
 Current shareholders / new shareholders
 Institutional shareholders / private investors
 Industrial owners / portfolio investors
 Bidder / other target shareholders

=> Conflicts of interest arise in various instances ... but voting differences are only a proportionally minor aspect in normal financial markets

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An example of risks of extreme prices

- An example of risks of extreme price differences and changes in those
- Finland 1985->

YEAR	1986	1989	2006
Price difference of A/B shares	+25 %	> 100 %	0-5 %

... but not estimated to repeat itself again due to better minority treatment

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Examples of potential dual-class voting problems

➤ A listed company with 2 share classes, but equal dividend; A/B shares, A=20*vote, B=1*vote

Action	1) Prices are equal	2) 50 % price difference	A comment
Normal governance	Normal agency problems	Normal agency problems	▪ A normal agency problem
Normal trading	No problem	Extra price risk	▪ A minor problem
Major ownership change with strategy change	Problematic	Problematic	▪ Bid regulation
Bid (cash, shares etc.)	No problem (same price)	Price risk + Bid price risk	▪ Bid regulation ▪ Minority protection
A formal merger	No problems (same price)	Price risk + Merger price risk	▪ Regulation ▪ Minority protection
Capital structure decisions (issues, buybacks, combining sh.)	Potential problems	Problematic	▪ Regulation ▪ Minority protection

Regulation refers to a need for fair treatment and fair process. Various models may be solutions to the problems.

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Why voting differences are not a problem?

- An example of a private equity fund
 - Limited partners have no voting power and would not like to have

A close alignment of economic interests

A close alignment of economic interests

Principal = limited partners (investors)
Agent 1 = General partners (managers of the fund)
Agent 2 = Company managers

- Principals use votes only in potential conflicts of interest situations
- One agreement for appr. 10 years

=> Conclusions for public companies: The smaller the price differences or relative price changes the larger alignment of economic interests! Corporate transactions magnifies the potential conflicts if economic interests differ. Voting equality as such is not a solution.

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Conclusions

- Dual-class shares are only one feature in multiple of potential agency issues and conflicts.
- Requirements for one-share one-vote structures are not necessary.
- Minority protection, fair treatment rules and bid regulation/take-over code, however, are the right path to solve potential arising problems of dual-class shares.

Appendix: Distribution of domestic share ownership

Largest 50 companies by market cap

Domestic controlling owners	Number of firms	%	1 class of shares	2 share classes
0% - 20%	15	30 %	14	1
20% - 40%	15	30 %	13	2
40% - 60%	14	28 %	11	3
60% ->	6	12 %	5	1
Sum	50	100 %	43	7

- *Domestic controlling owners* refers to Finnish ownership and is measured by the cumulative amount of domestic shareholders holding a minimum of 5% voting power.