



ICGN Press Release

ICGN Challenges European Proposals on Differential Voting Rights

29 January 2015 – In a coordinated move the International Corporate Governance Network (ICGN) has issued a strong message to the European Parliament and the Italian Government on the issue of differential voting rights. A further letter will be submitted to French authorities.

ICGN is challenging Amendment 42, Article 3ea, of the Shareholder Rights Directive which introduces mechanisms such as differential voting rights, loyalty dividends, loyalty shares and tax incentives. A letter has also been submitted to the Italian Government calling for provisions outlined in the Growth Decree not to be extended past the sunset date of 31 January. The provisions allow Italian companies to modify their statutes via a simple majority vote in order to introduce double voting rights to shareholders who have owned shares for two years, rather than a supermajority vote as normally required in the Legge Draghi of 1988.

Erik Breen, ICGN Chairman, says: "We encourage the European Parliament not to implement any proposal that allows for unfair treatment of minority shareholders and to fully consider the adverse implications that this proposal will have at a European-wide level. This undermines the rights of minority shareholders and will impact on the attractiveness of European markets for global investment. "

ICGN asserts that loyalty shares commonly used in France, effectively double the voting influence of controlling shareholders at general meetings and disenfranchises minority shareholders. Differential voting rights provide a mechanism for controlling shareholders to preserve undue control while drastically limiting their economic exposure. It can lead to unintended consequences, such as entrenchment of management in a way that can serve as an antitakeover mechanism.

The issue of double voting rights is particularly live in Italy, where key investor protections risk being watered down. "The debate on the merits of differential voting rights will rage on and on, said Karina Litvack¹, a longstanding ICGN Member, but one thing is clear: we cannot, for the sake of Italy's standing in the international capital markets, afford to tamper with the one critical safeguard that has protected minority investors since 1998. If listed companies choose to switch to multiple voting rights, they must, at a minimum, continue to earn that right through a two-thirds majority shareholder vote. Recent amendments seeking to eliminate this hurdle must be allowed to die a natural death".

¹ Karina Litvack currently serves as Independent Non-Executive Director of the Italian company, ENI. She comments in a strictly personal capacity.

The ICGN supports the Shareholder Rights Directive and particularly welcomes enhanced rights for shareholders and increased responsibilities as an important means to help ensure the effective functioning of capital markets and long term corporate sustainability. As such, ICGN is fully supportive of investors taking a long-term perspective on shareholding, particularly in investment mandates that support a beneficial owner's long-term funding needs. However, Amendment 42 and the developments in Italy are misguided and can lead to unintended consequences.

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About ICGN

The International Corporate Governance Network (ICGN) is an investor-led organisation of governance professionals with members including institutional investors based in 50 countries and collectively responsible for assets under management in excess of US\$18 trillion. Our membership also includes other stakeholders including company directors, professional advisors and academics.

www.icgn.org

Established in 1995, our mission is to inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide. We achieve this through the ICGN Global Governance Principles (attached) which are implemented by influencing public policy, connecting peers at global events and informing knowledge through guidance and education.

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