

# Dual class shares and the need for safeguards

April 2018



CFA Institute



# About the survey

## Background

- Key stock exchanges in Asia Pacific (e.g. Hong Kong and Singapore) are moving towards allowing companies with dual class shares (DCS)\* structures to list.
- A DCS structure permits the issuing of different classes of shares with **differential voting rights and dividend payment arrangements** by the same company.
- Such a structure allows **entrepreneurs to maintain control** of their companies even after successive rounds of financing.
- It is often considered by academics as an anti-takeover device.

\* DCS is sometimes known as “shares with weighted voting rights” or “shares with unequal voting rights” in other jurisdictions and in the literature

## Research Objective

- To gather views from CFA Institute members in Asia Pacific on the **appropriate safeguards** in the likely scenario that DCS is introduced

## Survey Response

- The survey was conducted from **8 March – 16 March 2018**.
- 28,334 members in Asia Pacific were invited to respond.
- 454 members responded, for an overall response rate of 1.6% and a margin of error of  $\pm 4.6\%$  at a 90% confidence level.

# Overview of survey questions

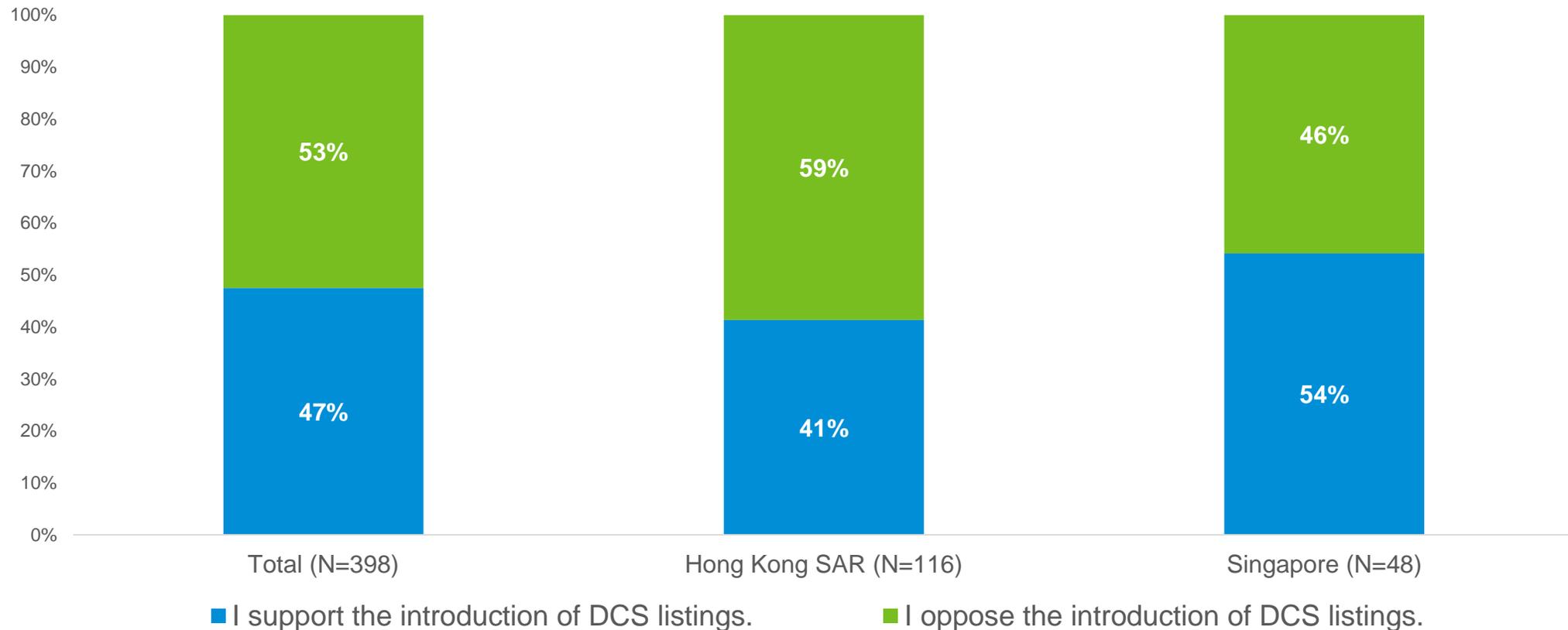
1. Opinion on DCS (support or oppose)
2. Key opportunities and risks brought about by DCS
3. Whether additional safeguards are needed if DCS are introduced
4. Appropriateness of specific safeguards:
  - (a) Mandatory corporate governance measures
  - (b) Sunset provisions
  - (c) Voting rights differential
  - (d) Specific admission criteria
  - (e) Others

# Summary of survey results

- Respondents across APAC are split on the introduction of DCS listings
  - Respondents in Singapore are more inclined to support while those in Hong Kong are more inclined to oppose
- The most recognized opportunities of DCS include:
  - Boosting attractiveness of the exchange
  - Attracting companies from technology and other innovative sectors
- The most recognized risks of DCS include:
  - Insufficient or absence of minority investor protection
  - Skewed proportionality between ownership and control
- Regardless of whether respondents supported DCS, **97%** of respondents believe additional safeguards are necessary
- The most appropriate safeguards include:
  - (a) Mandatory corporate governance measures (96-97%)
  - (b) Time-based sunset (94%)
  - (c) Setting a maximum voting right differential (93%)
  - (d) Setting a coat-tail provision (97%)
  - (e) Reverting to one-share one-vote for related party or substantial transactions (93%)

# Opinion on DCS

What is your opinion on the introduction of DCS listings to the market you primarily cover and/or are based?



NOTE: Excludes no opinion

# Key opportunities and risks (1/2)

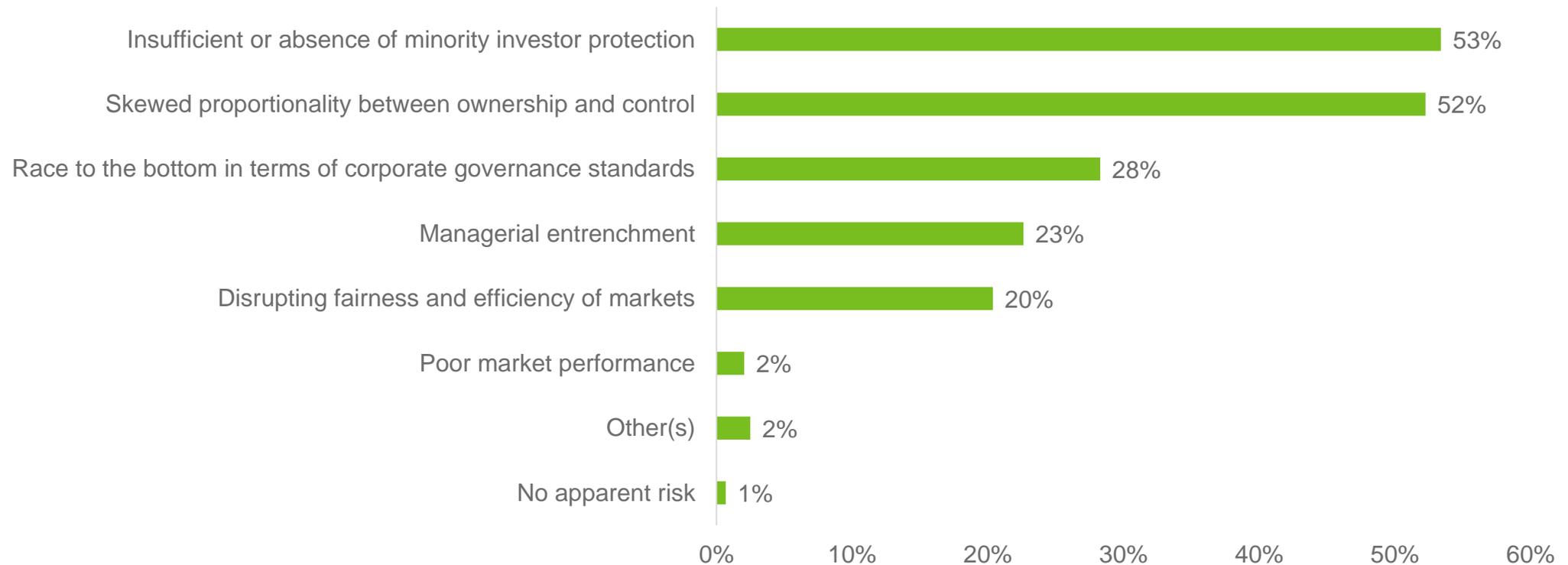
What do you consider as the key opportunities with the introduction of DCS listings?  
(N=427)



NOTES:  
(1) Respondents could select up to two choices.  
(2) Excludes no opinion

# Key opportunities and risks (2/2)

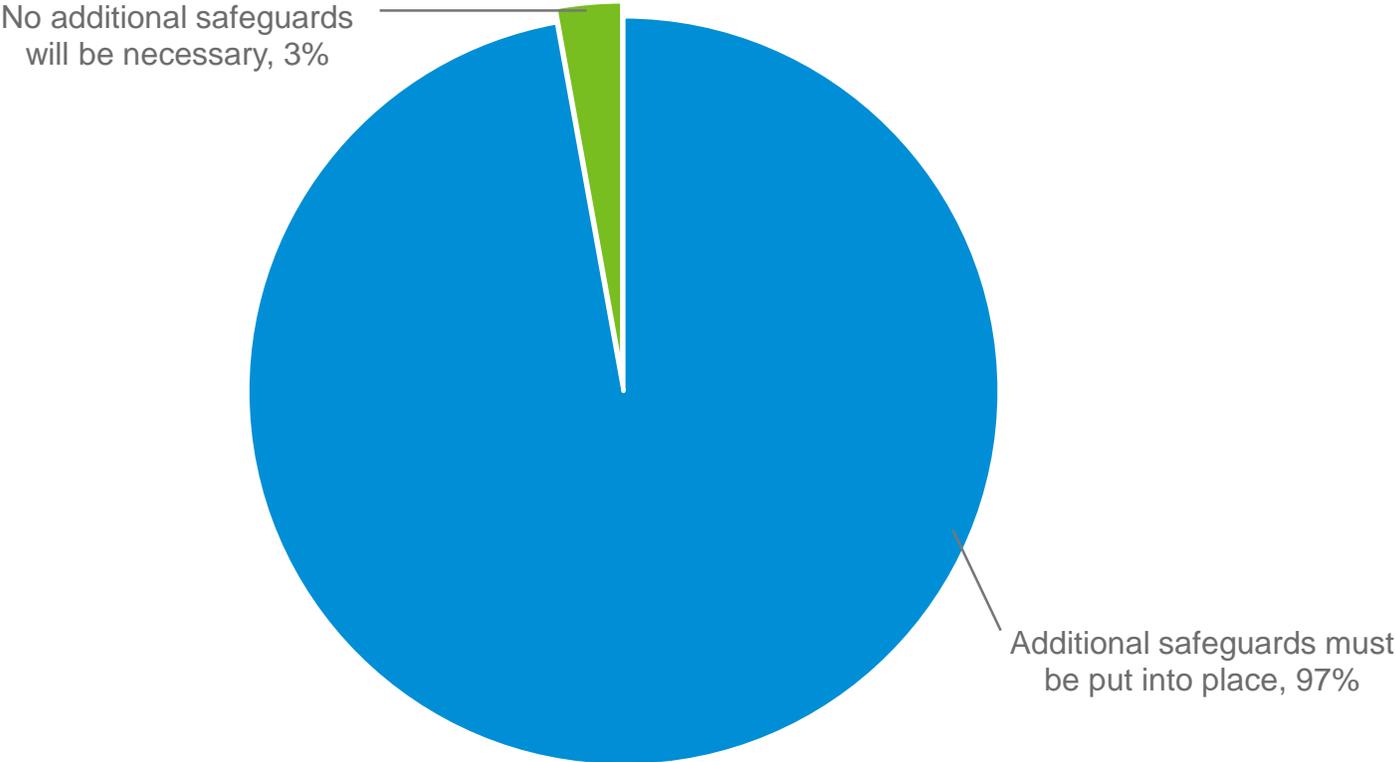
What do you consider as the key risks with the introduction of DCS listings?  
(N=442)



NOTES:  
(1) Respondents could select up to two choices.  
(2) Excludes no opinion

# Whether additional safeguards are needed

If DCS structures are introduced to the market ...  
(N=423)



NOTE: Excludes no opinion

# Appropriateness of specific safeguards (1/4)

		Should be required	Somewhat appropriate	Not appropriate
<b>(A) Mandatory corporate governance measures</b>	Separation of CEO and Chairman roles (N=386)	71%	26%	3%
	Majority of independent directors on the board (N=395)	72%	25%	4%
	Composition of some/all of the key committees to be at least made up of mostly independent directors (N=395)	70%	27%	3%
	The key committees to be chaired by independent directors (N=392)	68%	29%	3%
<b>(B) Sunset provisions</b>	Introducing a time-based sunset clause (N=343)	49%	45%	6%
	Automatic conversion of higher voting right shares to ordinary shares when they are traded (N=364)	59%	33%	9%
	Automatic conversion of higher voting right shares to ordinary shares if/when the DCS beneficiary dies or ceases to be a director for personal/regulatory reasons (N=362)	65%	29%	6%
	Forbidding sunset clauses to be overridden by the controlling shareholder (N=339)	70%	22%	8%

NOTES:

- (1) Numbers may not add up to 100% due to rounding.
- (2) Excludes no opinion

## Appropriateness of specific safeguards (2/4)

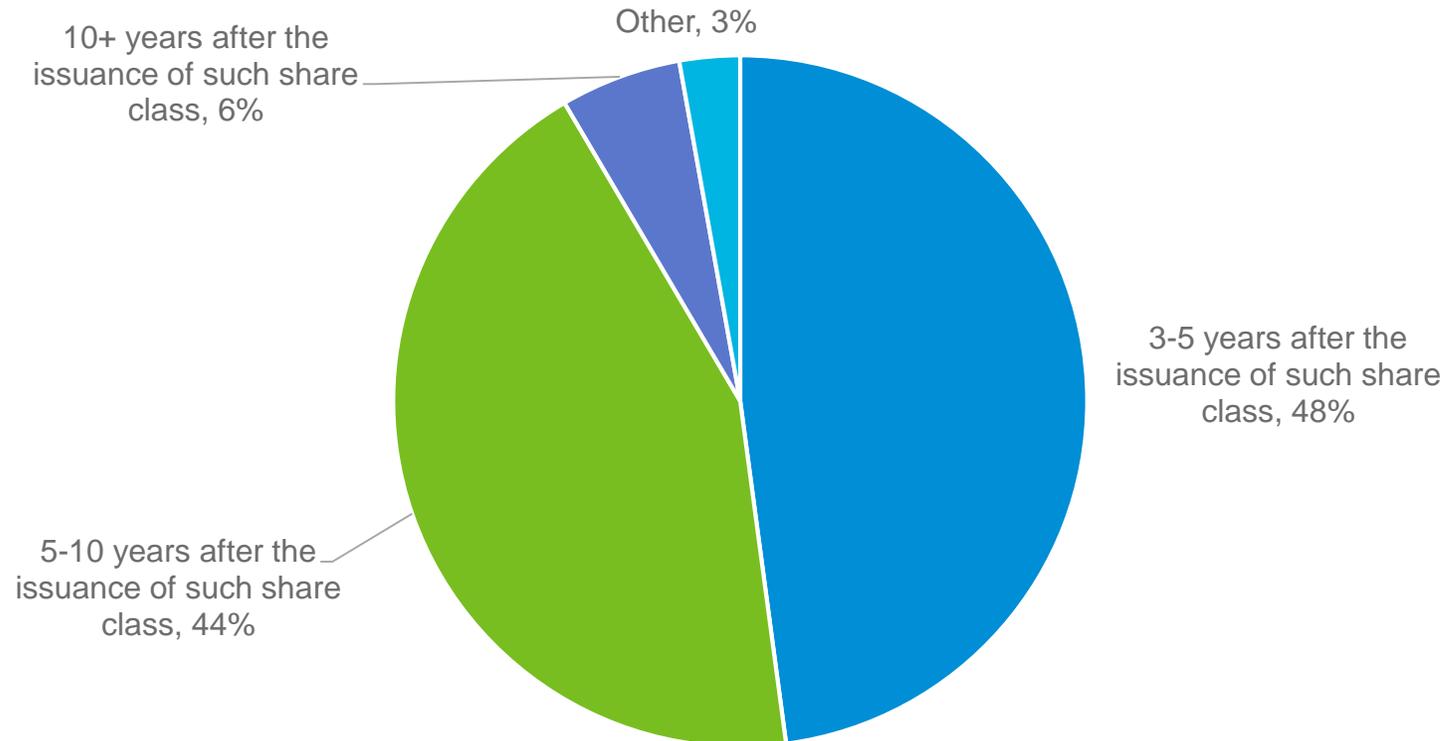
		Should be required	Somewhat appropriate	Not appropriate
<b>(C) Classes of shares / Voting right differential</b>	Introducing a maximum voting differential (N=356)	66%	28%	7%
	Prohibiting the issuance of shares with no voting rights (N=361)	50%	27%	24%
	Prohibiting the issuance of dual- or multiple-share classes by a company that is already listed (N=357)	55%	27%	18%
<b>(D) Specific admission and investor requirement</b>	Setting a minimum market capitalization threshold (N=340)	44%	40%	16%
	Setting a requirement for the listed firm to have been substantially invested by institutional investors, who would have undertaken proper due diligence (N=336)	35%	46%	19%
<b>(E) Others</b>	Introducing a coat-tail provision, which will allow ordinary shareholders to have an equal footing in the case of a company takeover offer (N=348)	68%	29%	3%
	Reverting to “one share, one vote” for related parties or substantial transactions (N=360)	65%	28%	7%
	Only allowing natural person to hold shares with super voting rights (i.e. no corporate shareholders) (N=342)	43%	30%	27%
	Requiring DCS stocks to contain specific stock codes as identifiers (N=345)	72%	24%	4%
	Establishing a separate board for the listing of such stocks (N=315)	32%	37%	31%
	Prohibiting DCS stocks to be included in major benchmark indices (N=332)	37%	30%	33%

NOTES:

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- (2) Excludes no opinion

# Appropriateness of specific safeguards (3/4)

Which one of the following time-based sunset provisions do you consider as optimal?  
(N=284)

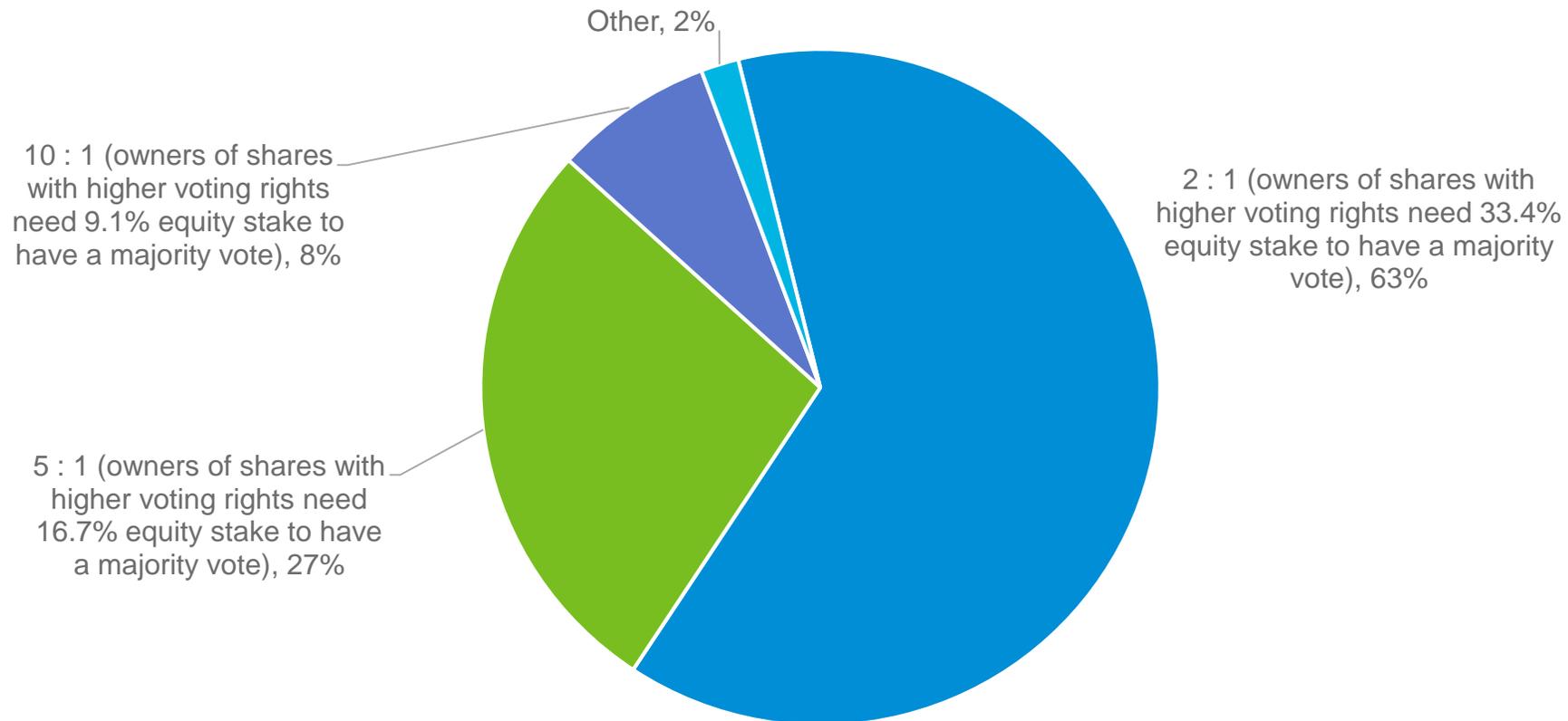


**NOTES:**

- (1) Shown only to those who think introducing a time-based sunset clause should be required or is somewhat appropriate (94%) .
- (2) Excludes no opinion

# Appropriateness of specific safeguards (4/4)

Which one of the following maximum voting differentials do you consider as optimal?  
(N=277)



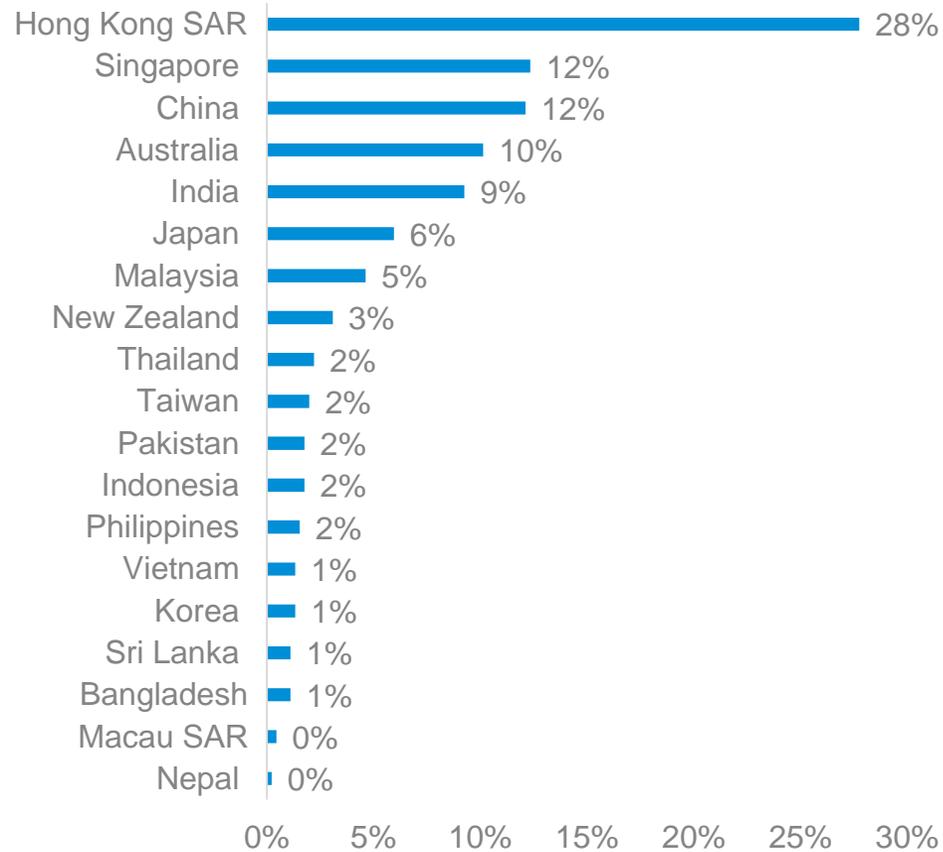
**NOTES:**

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- (2) Excludes no opinion

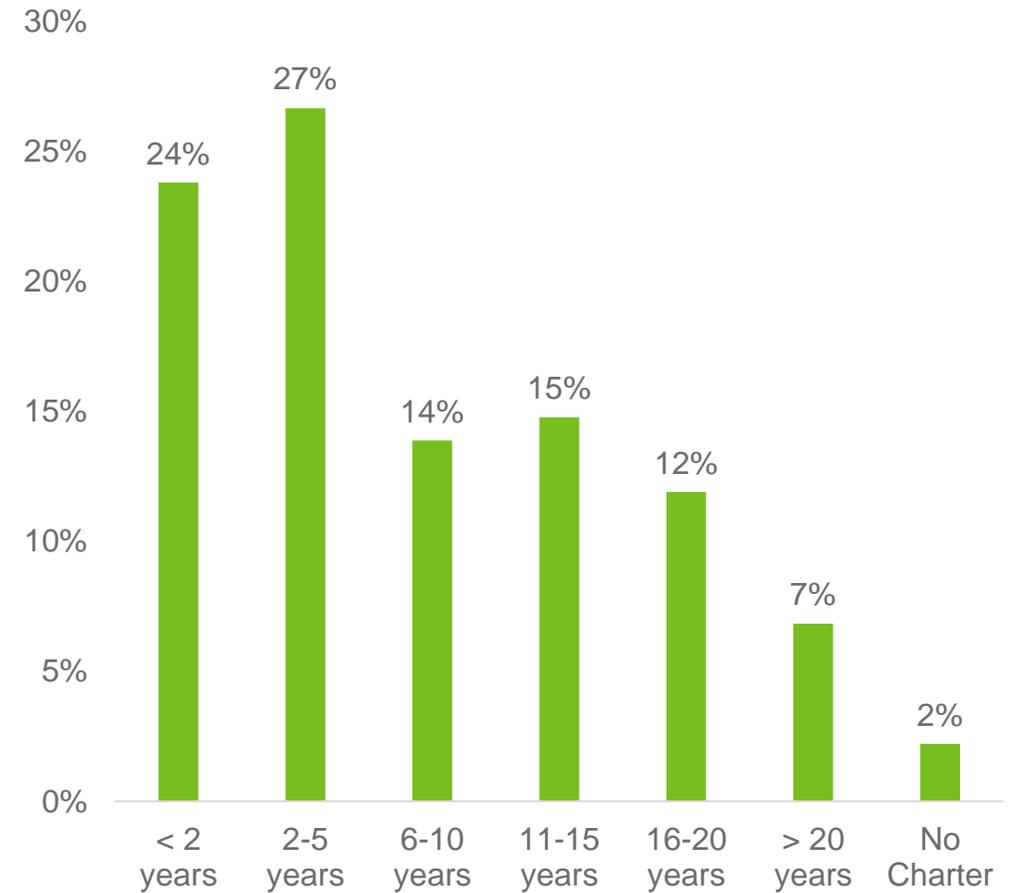
# Respondent profile

# Respondent distribution

## Geographic location



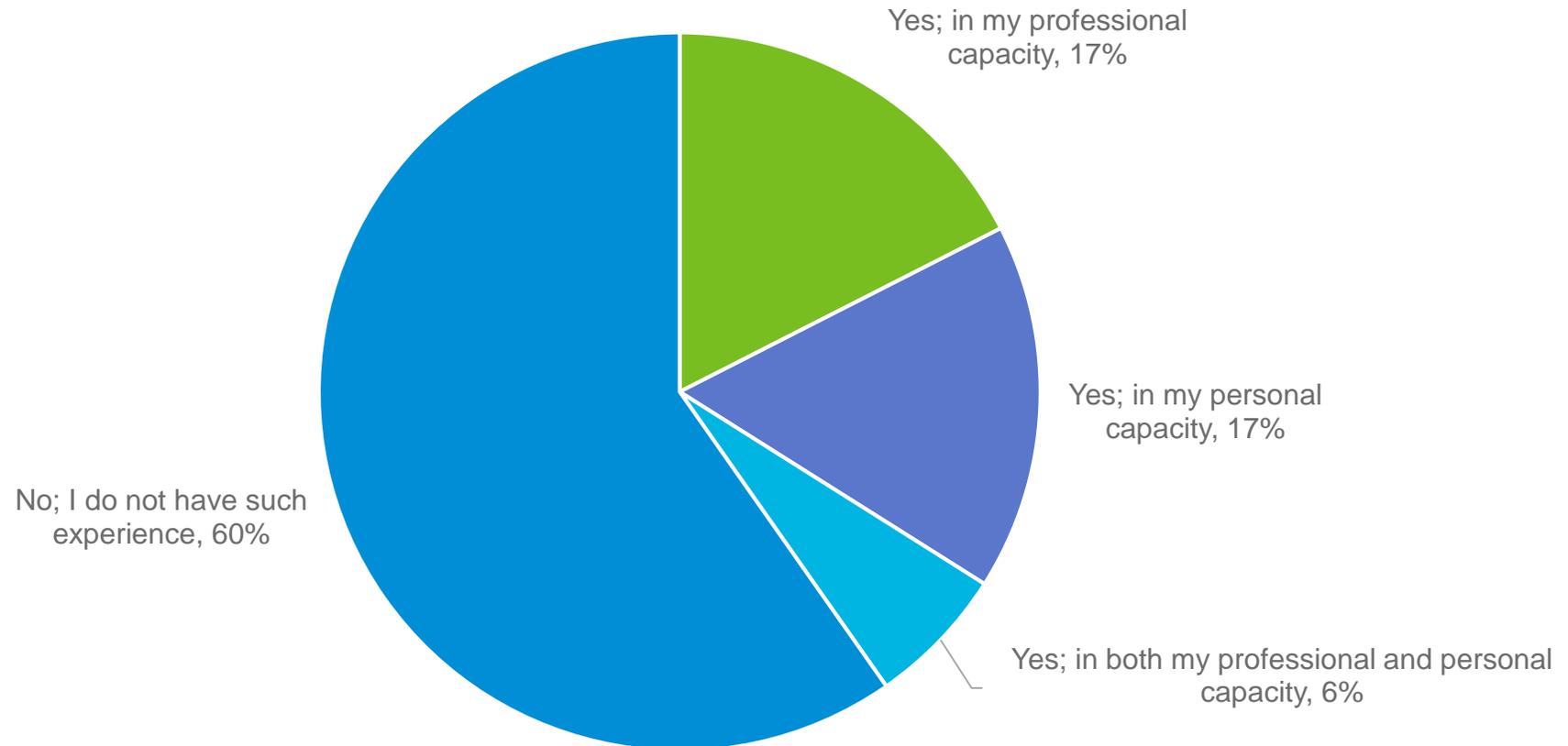
## Years with the CFA Charter



NOTE:  
Numbers may not add up to 100% due to rounding

# Respondent experience in investing

Do you have any experience, in your professional or personal capacity, in investing in equities with dual- or multiple-class share structures? (N=412)



NOTE:  
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