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CONSULTATION AFG'S RESPONSE

Proposal for a directive on multiple-vote share structures



AFG



The AFG federates the asset management industry for 60 years, serving investors and the economy. It is the collective voice of its members, the asset management companies, whether they are entrepreneurs or subsidiaries of banking or insurance groups, French or foreigners. In France, the asset management industry comprises 700 management companies, with €4600 billion under management and 85,000 jobs, including 26,000 jobs in management companies.

The AFG commits to the growth of the asset management industry, brings out solutions that benefit all players in its ecosystem and makes the industry shine and develop in France, Europe and beyond, in the interests of all. The AFG is fully invested to the future.

AFG'S RESPONSE - CONSULTATION ON THE PROPOSAL FOR A DIRECTIVE ON MULTIPLE-VOTE SHARE STRUCTURES

I. OPPOSITION ON THE PROPOSED OBLIGATION FOR MEMBER STATES TO INTRODUCE THE POSSIBILITY FOR COMPANIES TO ADOPT MULTIPLE-VOTE SHARE STRUCTURES

We are not in favour of the introduction of multiple vote share structures. The optimal share structure for companies wishing to benefit from access to public capital should be one vote for each share within the same class. This helps to ensure the equitable treatment of all shareholders, protecting against managerial entrenchment and an erosion of accountability. It will be important that the EU emphasis on this importance of shareholder democracy and shareholder rights.

The AFG, as most institutional investors, support the "one share, one vote" principle, as this proportionality principle ensures that the voting power matches the economic exposure of each shareholder and allows an equal treatment of shareholders.

AFG Recommendations on Corporate governance 1- A -2 : As it supports the principle "one share, one vote", AFG takes the view that the practice of granting double and/or multiple voting rights may allow the control of a company by minority shareholders. Therefore, this practice might lead to abuses arising from the dichotomy between shareholder power and financial risk."

The tendency of stock exchanges to attempt to obtain more IPOs by creating a disparity in shareholder voting rights, allowing multi-class share structures with voting rights disproportionate to the underlying economic interests and the investment risk does not seem desirable to us. The optimal shareholding structure for companies wishing to benefit from access to public capital should be one vote for each share within the same class. This helps to ensure that all shareholders are treated fairly, protecting against managerial entrenchment and an erosion of accountability.

II. IN CASE EUROPEAN LEGISLATORS MOVE FORWARD WITH THE PROPOSED OBLIGATION, ADDITIONAL SAFEGUARDS ARE NEEDED :

Although we do not see the necessity and desirability for European legislation that introduces an obligation for Member States to ensure that companies may adopt multiple vote share structures, we would like to make the following comments should the European legislators move forward with that proposal.



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We firmly believe that opting for dual-class shares when going public should have a common framework in all European jurisdictions. In that context, we do not support the proposed optional safeguards per Member States discretion, such as the transfer based sunset clause, the time-based sunset clause, the event-based sunset clause, as they could introduce further distortion between jurisdictions.

It seems essential that the directive standardize mandatory safeguards to protect minority shareholders and should be strengthened as followed :

- In case of classes of shares with multiple voting rights, companies are expected to include a sunset provision, with a maximum duration of five years, with no possibility of extension. The sunset clause provision is the most important safeguards that should be mandatory;
- The enhanced voting rights should not be transferred to third parties;
- A maximum weighted voting rights ratio of 5:1 ;
- Scope should be limited to newly IPO.

Finally, we do not support in the directive the proposed provision that allow member States that already have regimes on multiple vote shares not to have to amend their rules.

There is no justification why distortion between jurisdictions and protection of shareholders should differ from Member State to Member State. Member States with already existing national provisions on multiple-vote share should also be obliged to introduce safeguards described above.





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