



INSTITUTIONAL SHAREHOLDER SERVICES

SHEARMAN & STERLING LLP



european corporate governance institute

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**Institutional Shareholder Services (ISS), Shearman & Sterling LLP and the European Corporate Governance Institute (ECGI) submitted the results of a Study on proportionality between ownership and control in EU listed companies to European Commission**

After nine months of research, the facts and figures on proportionality between ownership and control were submitted to the European Commission by ISS and its partners Shearman & Sterling and the ECGI.

Last year, the European Commission commissioned a research report to understand an important corporate governance issue: the proportionality between ownership and control. This study is part of the Commission's efforts to base any policy initiatives it might wish to take in this area on objective data. As Charlie McCreevy, European Commissioner for Internal Market and Services, said at the time of the launching of the initiative "The study represents the essential starting point for any further discussion on the adequacy of control to capital. It will provide a full, systematic picture of the essential features of Corporate Europe that the European public opinion is waiting for. Any discussion about how to move on, about possible initiatives in this area, needs to be based on sound facts."

Those facts are now on the table. Some highlights of the Study, which covers nineteen countries, are:

- **All countries allow Control Enhancing Mechanisms ("CEMs") from a legal point of view.**
- A wide variety of protective mechanisms are available to shareholders in companies featuring CEMs.
- **Not all companies use CEMs**, even though they might be available. **44% of companies in the sample feature one or more CEM.**
- The review of academic research shows that **there is no theoretical or empirical basis for encouraging or discouraging CEMs in general** at this stage. Regulation must take into account the specific circumstances in which a CEM is or might be used.
- The countries with the highest proportion of companies featuring at least one CEM are **France, Sweden, Spain, Hungary and Belgium**, which **all have a majority of companies featuring CEMs.**
- **Recently listed companies have fewer CEMs than large companies.** This means fewer occurrences of CEMs but also fewer combinations of CEMs
- Investors say they mostly perceive Control Enhancing Mechanisms negatively. According to most investors, this influences investment decisions. **80% of investors in the sample expect a discount** for companies with CEMs. When specified, this discount generally **ranges from 10% to 30%** of market price.

“For ISS, this Study will have been a success if it contributes to shedding more light on the subject of proportionality and to fostering more transparency in the market place, for the benefits of listed companies as well as shareholders,” said Jean-Nicolas Caprasse, Managing Director of ISS Europe. “I’m convinced this objective has been achieved.”

“This is the first time a study surveys the potential availability of Control Enhancing Mechanisms and protective legal devices in nineteen jurisdictions. It shows that a broad range of mechanisms is available in most countries, even when they have different legal traditions”, said Christophe Clerc, European Counsel at Shearman & Sterling. “All countries apply the freedom of contract principle to varying degrees.”

Marco Becht, Executive Director of the ECGI said: “The ECGI is very pleased that independent research is having such a significant influence on the governance debate. This study shows CEMs are complex and deserve serious reflection. It is the first step towards systematic stocktaking and evaluation of the proportionality between ownership and control in EU listed companies, based on European data and realities.”

-ENDS-

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Notes to the Editors:

**About Institutional Shareholder Services - [www.issproxy.com](http://www.issproxy.com)**

Since 1985, Institutional Shareholder Services (ISS) has met the diverse and rapidly evolving needs of the institutional investor community by delivering leading proxy voting and corporate governance solutions. ISS responds to the evolution of the corporate governance market by providing a broad choice of products and solutions, a global network of local experts and the industry's only integrated end-to-end platform to facilitate research distribution and vote execution through a single interface.

ISS is a wholly-owned subsidiary of RiskMetrics Group. RiskMetrics Group and ISS have more than 900 employees across 23 offices serving over 2,400 clients worldwide. Together we are working to innovate solutions that enable institutional investors to effectively manage risk through a broad range of environmental, social and governance data, research, analytics and modeling.

**About Shearman & Sterling LLP - [www.shearman.com](http://www.shearman.com)**

Shearman & Sterling LLP is a global law firm with approximately 1,000 lawyers located in 19 offices around the world, including over 300 lawyers across 8 offices in Europe.

The firm's clients include many of the world's leading corporations and financial institutions, most of them engaged in international business activities in multiple jurisdictions. The firm is a leader in mergers and acquisitions, capital markets, project development and finance, bank finance, asset management, tax, complex business litigation and international arbitration.

**About the ECGI - [www.ecgi.org](http://www.ecgi.org)**

The European Corporate Governance Institute (ECGI) was founded in 2002. It has been established to improve corporate governance through fostering independent scientific research and related activities. The ECGI produces high quality independent scientific research while remaining close to the concerns and interests of corporate, financial and public policy makers. It draws on the expertise of scholars from numerous countries and brings together a critical mass of expertise and interest to bear on this important subject.