

LISTING ACT

MULTIPLE-VOTE SHARES

Proposal COM(2022) 761 of 7 December 2022 for a **Directive on multiple-vote share structures in companies that seek the admission to trading of their shares on an SME growth market**

cepPolicyBrief No. 7/2023

SHORT VERSION [[Go to Long Version](#)]

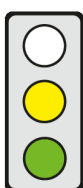
Context | Objective | Interested Parties

Context: According to the Commission, many small family businesses, start-ups, founders and companies with long-term projects are reluctant to go public for fear of losing control over key operational and investment decisions. The Commission wants to allay this fear and - within the framework of the Listing Act presented in December 2022 - oblige Member States to introduce multiple-vote share structures.

Objective: The Commission wants to increase incentives for small family businesses, start-ups, founders and companies with long-term projects to consider going public.

Affected parties: Especially small family businesses, start-ups, founders, shareholders, SME growth markets.

Brief Assessment



Pro

- ▶ Obliging all Member States to allow companies to use multiple-vote share structures is no problem from a regulatory point of view. Such structures may also strengthen the attractiveness of EU capital markets in global competition.
- ▶ The safeguards providing for the expiry of multiple-vote shares upon the death, incapacity or retirement of the holder of such shares are justified.
- ▶ The transparency requirements are appropriate. They serve to maintain investor confidence and are essential for the successful establishment of multiple-vote share structures.

Contra

- ▶ Multiple-vote share structures should be permitted, not only on SME growth markets but also on regulated markets and exchange-like multilateral trading facilities (MTFs).
- ▶ Safeguards to limit voting weight are ultimately superfluous. Investors can easily discipline companies effectively by means of valuation discounts if they consider that the voting weight granted is too high.
- ▶ Legislators should not set fixed expiry periods for multiple-vote share structures as they are unlikely to establish "correct" and "appropriate" expiry periods for all companies.

Enabling multiple-vote share structures [Long Version C.1.1]

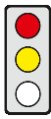
Commission proposal: Companies may introduce multiple-vote share structures. Any bans on such structures in Member States must be lifted.



cep-Assessment: The fact that all Member States must allow multiple-vote share structures in future is unproblematic from a regulatory point of view. Since the Commission leaves companies free to choose the share structure, and investors have to be informed about the chosen structure and its consequences, the development of an efficient market outcome is still possible. Multiple-vote share structures may also strengthen the attractiveness of EU capital markets.

Restriction to SME growth markets [Long Version C.1.4]

Commission proposal: The permission to introduce multiple-vote shares is limited to companies seeking to admit these shares to trading on trading venues specially designed for SMEs ("SME growth markets").



cep-Assessment: The regulatory focus on SME growth markets should be reconsidered because it promotes false incentives. Assuming that a Member State maintains the restriction to SME growth markets, it could encourage companies to avoid listing on a regulated market or MTF. It will therefore inevitably and unnecessarily put these trading venues at a disadvantage in the competition for lucrative listings.

Limiting the voting weight of majority shareholders [Long Version C.1.2]

Commission proposal: Member States must ensure that the impact of the increased voting weight of multiple-vote shares is limited. They can do this by setting a maximum proportion of the issued share capital and a maximum weighted voting ratio, or by limiting the voting rights of the majority shareholders on certain resolutions of the shareholders' meeting.



cep-Assessment: Legislative safeguards to limit voting weight are generally superfluous. In this regard, it is up to market players to weigh up what decision-making power should be granted to the respective side of the market. Thus, for example, investors can easily discipline companies effectively by means of valuation discounts if they consider that the voting weight granted is too high.

Event-based expiry of the multiple-vote shares [Long Version C.1.2]

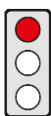
Commission proposal: Member States can introduce rules to prevent the continued existence of enhanced voting rights after the death, incapacity or retirement of the holder of multiple-vote share.



cep-Assessment: Safeguards providing for the expiry of multiple-vote shares upon the death, incapacity or retirement of the holder are logical and reasonable because if such events occur, the original reason for granting multiple voting rights automatically ceases to exist. The legislator should therefore retain these clauses.

Time-based expiry of multiple-vote shares [Long Version C.1.2]

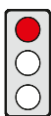
Commission proposal: Member States can introduce provisions to prevent the continuation of enhanced voting rights after a certain period of time.



cep-Assessment: While studies show that the (automatic) expiry of multiple voting rights after a certain period of time is often effective, it is not the task of legislators to set a fixed period of time in this regard. They are unlikely to be able to establish "correct" and "appropriate" time periods for all companies because this presumes a level of knowledge that the legislator does not and cannot have. Legislators should therefore refrain from establishing time-based expiry clauses.

Resolutions on human rights and environmental aspects [Long Version C.1.2]

Commission proposal: Member States can introduce provisions to preclude the use of enhanced voting rights to block resolutions of the shareholders' meeting that are aimed at preventing, reducing or eliminating adverse impacts on human rights and the environment.



cep-Assessment: The optional safeguard to ensure that enhanced voting rights cannot be used to block environmental and human rights-related decisions should be rejected. It would unduly mix political concerns, which are more properly addressed by means of direct instruments, with issues of company law. Legal uncertainty is also likely because it will frequently be unclear which resolutions are affected in individual cases. Legislators should therefore discard the clause.

Transparency about multiple-vote share structures [Long Version C.1.3]

Commission proposal: Companies with multiple-vote shares must provide information on the use of the share structure in the "EU Growth issue document" or in the admission document as well as in the company's annual financial report.



cep-Assessment: The requirements for transparency regarding the use of multiple-vote share structures are appropriate. They are essential for the successful establishment of multiple-vote shares. This is because only the disclosure of information on the design of the structure used will enable investors to make a considered decision on whether they can and want to bear any additional risks associated with it. They are therefore key to maintaining investor confidence.