



Investor Coalition for Equal Votes

Investor statement on unequal voting rights



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As long-term investors, the right to vote is one of the most important of all the rights granted to us as shareholders in a company. It gives us a say in who represents us on the company's board, which in turn shapes its executive leadership, corporate policies, and its strategy and capital investment plans – all of which affect outcomes for our beneficiaries and clients.

We believe that voting rights in public companies should be proportionate to shareholders' economic participation in these companies – the 'one share, one vote' (or equal voting rights) principle. We believe that boards cannot effectively carry out their fundamental oversight purpose if capital structures give particular individuals or organisations power that is disproportionate to their economic interest in the company. **Equal voting rights allow investors to ensure that companies are run in the interests of their shareholders, operate productively and efficiently, and are accountable and transparent.**

Dual-class share structures (or unequal voting rights) weaken these protections. They undermine shareholder rights and remove a key accountability mechanism for poorly performing management, can hinder long-term financial performance and can undermine the relationship between companies and their investors. **When used extensively across a particular market, as seen in the US and elsewhere, dual-class share structures can also undermine the effective functioning of capital markets.**

As long-term investors concerned about the detrimental impact of unequal voting rights on outcomes for individual savers and for capital markets as a whole, we make the following calls:

We encourage companies to:

- Adopt single-class share structures at Initial Public Offering (IPO) or as soon as possible thereafter.
- Adopt explicit time-based sunset clauses of no more than seven years from the date of public listing when using dual-class share structures, at which time the company reverts to a single-share class.
- Implement supplemental safeguards for pivotal proposals e.g. decisions relating to mergers and acquisitions and board structure should always require support from a simple majority of outstanding shares for adoption.

We encourage company advisers* to:

- Fully inform clients contemplating dual-class share structures of the benefits of single-class structures for good corporate governance and their appeal to long-term investors.
- Ensure that, where dual-class share structures are used, firms use time-based sunset clauses (maximum seven years) that are embedded in the company's governing documents prior to IPO.

* *Including legal and financial advisers, and investment banks*



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We encourage other investors to:

- Publicly oppose dual-class share structures, and adopt and support formal advocacy, engagement and voting policy decisions to that effect.
- Work with policymakers, stock exchanges and index providers to adopt policy measures that discourage the adoption of dual-class share structures and ensure that companies with these structures have incorporated the safeguards we mention on [page 01](#).
- Engage with pre-IPO companies and their advisers to explain why equal voting rights are in line with the company's long-term best interests.
- Use all stewardship tools at their disposal to urge companies with existing dual-class share structures to explore the benefits of recapitalisation to restore equal voting rights.

We encourage stock exchanges and index providers to:

- Adopt listing standards and methodologies, as applicable, which discourage the adoption of dual-class share structures .
- Require companies with dual-class share structures, should the decision be made to admit such companies, to have time-based sunset clauses (maximum seven years) or to periodically obtain majority approval from each class – voting separately – for the dual-class share structure to continue.
- Ensure that any dual-class companies they admit to listing or index inclusion are clearly identified as having dual-class share structures.

We encourage policymakers and regulators to:

- Take steps to discourage companies from listing with these structures, unless with a time-based sunset clause (of seven years or less from IPO) and include robust investor protections as outlined left.
- Take interim steps, in advance of more comprehensive market reforms, towards enhancing transparency from companies that list with dual-class share structures. This includes requiring these companies to clearly and prominently disclose information, including the precise disparity between 'ownership interests' and voting rights held or controlled.



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Notes

1 This Statement has been prepared by the Investor Coalition for Equal Votes (ICEV). ICEV, supported by long-term institutional investors with over \$2.5 trillion in assets (and growing), promotes the adoption of capital structures that ensure that equity positions with substantially similar economic participation provide identical voting power on a share-for-share basis (commonly referred to as equal voting rights). ICEV pursues our mission primarily by engaging with pre-IPO companies and their advisers, with other financial market participants, and with policymakers and regulators.

To find out more about ICEV, its members and how to join, visit the Coalition's page (pending the launch of ICEV's own website) on Railpen's website at railpen.com/knowledge-hub/our-thinking/2023/icevone-share-one-vote-1/

2 ICEV's report *Undermining the shareholder voice: The rise and risks of unequal voting rights* analyses the implications of dual-class share structures for corporate governance, company and portfolio performance, the relationship between companies and their investors, and for the functioning of investment markets as a whole. To download a copy of the report, please go to railpen.com/media/pmcil2eb/icev-report-2023-undermining-the-shareholder-voice.pdf

3 Dual-class share structures (also referred to as dual-class stock or unequal voting rights) are equity structures where a company has issued two or more share classes (e.g. Class A and Class B shares), where these share classes differ in terms of voting rights. When multiple share classes of stock are issued, the class with limited, if any, voting rights is generally offered to the general public. The classes with more voting rights are typically only offered to insiders such as company founders, executives and family members, allowing them to retain control of the company.

