Corporate Governance: shareholders’ rights

One Share One Vote

The One Share One Vote issue was debated during a seminar held in Brussels on December 7, 2006 organised by the European Capital Markets Institute, the pension fund ABP and Eurosif.

The seminar “One Share – One Vote: a Means for Corporate Control?” intended to revive the debate on whether more proportionality and thus shareholder democracy is necessary for companies listed in the EU, and to offer an analysis on alternative policies to consider. The event was standing room only, with more than 90 participants both from the market side and the regulatory side attending. Speakers included Julian Franks, Viviane de Beaufort (academics), Gerben Everts (ABP Investments), David Jackson (BP), Wolf Klinz (MEP) and Philippe Pellé (DG MARKT).

Matt Christensen, Executive Director of Eurosif, made a presentation on the linkage between Responsible Investment and Active Share Ownership.

The general outcome of the seminar is that the One Share One Vote principle is still fraught with controversy. Many hurdles still need to be overcome and it will not become the standard in the short term. Academics present at the seminar did not see a reason to mandate One Share One Vote in EU law, arguing that this would create adverse effects, and it would not be in line with the subsidiary principle. On the other hand, European institutional investors increasingly see the benefits of more shareholder activism and thus proportionality between capital & vote. Moreover, the pressure in this direction will grow as a result of the implementation of the Takeover bids Directive (2004/25/EC), which introduces the “breakthrough rule” once a firm has acquired 75% of the shares of a target company, meaning that from this point onwards, the One Share One Vote principle applies.

The Commission tried to introduce the One Share One Vote principle due to the threat of take-overs but had to drop its plan following deadlock over the principle at the Council level. Since the Takeover bids Directive, the Commission, still keen on the principle, has been cautious to move forward on the issue. During the seminar, Philippe Pellé from DG MARKT explained that the Commission has no intention at the moment to mandate One Share One Vote but is waiting for the results of a study contracted with Institutional Shareholder Services (ISS) and the European Corporate Governance Institute (ECGI), which is expected in May 2007. One of the study’s goals is to identify the existing deviations between Capital & Control and their raison d'être.

Eurosif will monitor the development of the One Share One Vote issue and will carefully review the study contracted by the Commission as soon as it is available.
Following Eurosif’s involvement (see EU Insider n°4 & n°6) in the two preparatory public consultations held in 2005 by the Commission (DG MARKT) on the exercise of Shareholders’ Voting Rights, Eurosif is glad to report on recent updates:

As a reminder, on January 5, 2006, the Commission proposed a directive that should ensure in particular that the timely access of shareholders to the complete information relevant to general meetings and the exercise of the voting right by correspondence and by proxy is facilitated. Furthermore, the proposal suggests that share blocking and related practices be abolished, as they represent major obstacles to voting, in particular for institutional investors:

- General Meetings should be convened with at least three weeks notice. All relevant information should be available on that date at the latest, and posted on the issuer’s website. The meeting notice should contain all necessary information.
- Share blocking should be abolished and replaced by a record date, which should be set no earlier than 30 days before the meeting.
- The right to ask questions should be accessible to non-residents. The maximum shareholding thresholds to benefit from the right to table resolutions should not exceed 5%, in order to open this right to a greater number of shareholders while preserving the good order of general meetings.
- Proxy voting should not be subject to excessive administrative requirements, nor should it be unduly restricted. Shareholders should have a choice of methods for distance voting.
- Voting results should be available to all shareholders and posted on the issuer’s website.


1 For more information: http://ec.europa.eu/internal_market/company/shareholders/indexa_en.htm
CSR – Latest Developments at EU level

→ CSR report adopted by the European Parliament

Eurosif has been monitoring the progress of the report on CSR led by Richard Howitt, Labour Member of the European Parliament (member of the Committee on Employment and Social Affairs and the EP Spokesperson on CSR). Richard Howitt was the Keynote Speaker at Eurosif’s Advisory Council meeting in November 2006 where he gathered information from Eurosif affiliate members that ultimately helped him to shape the draft of the report. The report was voted in the Employment Committee on December 19, 2006 and later adopted by the European Parliament on March 13, 2007.

The following articles in the report “Corporate Social Responsibility: a new partnership” are of particular interest:

- Article 16 addresses investors and support “full participation by investors as stakeholders in the CSR debate at the EU level”. This is an important step in advancing SRI across Europe and deepening the knowledge about the relationship between CSR and sustainable development.

- Article 27 invites the European Commission to revisit the proposal to include social and environmental reporting alongside financial reporting as a means to “raise awareness of the provisions concerning social and environmental reporting within the 2001 Commission Recommendation on environmental disclosure”. This is a positive advancement and echoes work that Eurosif has been doing for the past several years to address social, environmental considerations in a harmonised fashion across Europe.

- Following on some of the trends in the Member States, Article 33 goes on to demand that the EC consider an EU-wide “statement of interest [sic] principles for investment funds” to achieve their goals. Additionally, Eurosif has asked that the European Parliament ensure that ‘interest’ is replaced by the word ‘investment’ as this was a mistake in the document.

Eurosif will use this report as a lobbying tool with the Commission concerning the progress made on CSR and SRI issues.

→ Multi-stakeholder Forum on CSR re-convened

The Commission organised on December 7, 2006 a review meeting of the European Multi-stakeholder Forum on CSR. The meeting was in line with the Commission proposal, in its recent communication on CSR, to “re-convene meetings of the Multi-stakeholder Forum at regular intervals with a view to continually reviewing progress on CSR in the EU”. In the first session, working groups of multi-stakeholders analysed what has happened since the forum made its recommendations in 2004 and the lessons learned. In the second session, working groups explored how the potential of CSR can be better exploited to contribute to key policy objectives.

Matt Christensen made a public request during the review meeting that Investors be integrated into the ‘Coordinating Group’ for future EU Multi-stakeholder discussions.

Following the December meeting, Eurosif was formally invited by the Commission to be an Official Member of the Coordination Committee of the European Multi-stakeholder Forum on CSR. On behalf of Xavier Prats, Director in DG Employment and Social Affairs, and Pedro Ortún, Director in DG Enterprise and Industry, Eurosif was invited to participate in upcoming forum discussions on:

- Improving knowledge about the relationship between CSR and sustainable development, and
- Exploring the appropriateness of establishing common guiding principles for CSR practices and instruments.

On behalf of Eurosif, Matt Christensen participated in the first meeting on February 14, 2007. The meeting discussed three primary areas that could be sources of future collaboration among the different stakeholders:

- Education/Research into CSR matters,
- Transparency/Credibility of the CSR/SRI field,

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The Multistakeholder Forum was originally established in October 2002 and came to a standstill after it made its recommendation in 2004.
Analysis of the EC-published Compendium of Existing CSR/SRI Initiatives.

The next meeting is planned for May 15th, 2007. One of Eurosif's key objectives in being an active member of the Multi-stakeholder Forum is to raise the profile of SRI in the discussion so that the Commission better understands the impact SRI makes on CSR.

Taxation for Sustainable Development

Eurosif was invited to attend the first Brussels Tax Forum organised by DG Taxation on March 19 & 20, 2007. The topic of the forum was Taxation for Sustainable Development and was attended by almost 500 participants representing national administrations and specialised government bodies, NGOs, experts and various stakeholders from all over Europe and overseas.

The Forum confirmed that there is an increasing understanding that the best way to ensure a sustainable long-term future is to base economic decisions on prices that reflect the full costs and benefits of activities. The discussions highlighted that there is a lot of experience with the use of economic instruments in general and that their role will inevitably further increase, since they allow for cost-effective realisation of highly ambitious policy goals. The conference also stressed the need to integrate social and competitiveness considerations when applying and designing economic instruments.

Tax Commissioner László Kovács said that taxes had the capacity to steer the European consumers toward a more efficient use of resources, while at the same time recycling the revenues back into the economy. He added that there is a real scope for action in this field: “The tax that the public is most inclined to pay is environmental taxes, because they do understand that what is at stake is the future of mankind…Even governments are inclined to give preference to taxing pollution and consumption because to lower the tax on labour would certainly result in a higher level of competitiveness.”

A green paper on market-based instrument for environment and energy related purposes was released by Environment Commissioner Stavros Dimas and Taxation Commissioner László Kovács on March 28, 2007. The paper aims to stimulate a broad public debate on how taxes, tradable emissions rights and other market-based instruments can be used more widely and effectively for environmental and energy policy purposes at community and national levels.

The Green Paper covers a wide range of areas where market-based instruments (mainly taxes, emissions trading rights) can be further promoted, in particular in energy use, transport's impact on the environment and in other specific areas of environmental policy such as sustainable management of water, waste management, protection of biodiversity and reduction of air pollution. In particular it focuses on possible ways forward to make the Energy Taxation Directive more directly supportive of the Community's energy and environmental objectives.

The Commission is inviting reactions to the Green Paper from other EU institutions, Member States, all stakeholders and the public. It will decide on appropriate follow-up in the light of the responses received.

Eurosif has made contact with representatives of DG Taxation and pushed forward the policy-making suggestions from its “Venture Capital for Sustainability 2007” report. Eurosif will meet with representatives from DG Tax on May 15th, 2007.
**Eurosif Meetings with European Institutions**

- Matt Christensen met in December 2006 with Genevieve Besse and Robert Strauss of **DG Employment, Social Affairs and Equal Opportunities** to discuss the evolving Multi-Stakeholder Forum and the important role that investors play in shaping CSR.

- Contact has also been made with the **DG Health and Consumer Protection** where Eurosif was invited to discuss the relationship between consumers and SRI funds with Francesco Gaetano. This DG has limited resources to invest in financial services and at the moment is more focused on retail banking rather than on asset management.

- In March 2007, Eurosif also met with Ieke van den Burg, Dutch MEP and spokeswoman on the important **Economic and Monetary Affairs Committee**. Ieke van den Burg commissioned a report published in late March 2007 calling on the Commission to take action on hedge-fund and private equity regulation, claiming that the industry's rapid growth could put the EU's job-creation policy at risk. Interesting to note is the following statement from the document: "at the centre of our thoughts is how to promote sustainable financing of the long-term investment". Read the report.

- Eurosif has also made contact with Portuguese representatives at EU level (Portugal will lead EU presidency for the 2nd half of 2007). Eurosif will communicate with the Member Affiliates on the outcome of this meeting as well as upcoming meetings with DG Research and DG Tax in the next EU Insider.