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FOR IMMEDIATE RELEASE
February 23, 2017

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CII Decries Dual-Class Race to the Bottom

Washington, D.C., February 23, 2017—The Council of Institutional Investors today expressed concern that stock exchanges are intensifying efforts to woo companies that seek to go public with limited accountability to outside shareholders. From U.S. markets to Asian exchanges, dual-class share structures, which concentrate voting power in the hands of corporate insiders, are making gains at the expense of public company shareholders.

On February 16, the Singapore Exchange (SGX) launched a consultation on permitting companies with dual-class shares to list on the exchange. A proposal by the Hong Kong Exchange to permit dual-class listed companies was shot down by its regulator in 2015, but HKE CEO Charles Li recently suggested revisiting the idea. Singapore's move may strengthen his hand. And U.S.-based Snap Inc. slashed its proposed valuation for its upcoming initial public offering (IPO), a move some fund managers say was spurred by the tech company's decision to offer no-vote shares to public investors.

"A dual-class race to the bottom is accelerating, and investors in public companies should be concerned," said Ken Bertsch, executive director of the Council of Institutional Investors. CII and institutional investors generally oppose differential share structures with unequal voting power because they deny shareholders a means to hold management accountable if the company stumbles.

Today, Snap Chair of the Board Michael Lynton, in a letter to CII, defended the company's offering of no-vote shares. Lynton was responding to a letter from CII and 18 investors that objected to the zero-vote shares. Lynton noted that the founders and top executives already have super-voting rights. Lynton said the board concluded "it would benefit our stockholders to extend this control beyond the IPO" because the dual-class structure "prolongs our ability to remain a founder-led company," which "will maximize our ability to create stockholder value."

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The Council of Institutional Investors (CII) is a nonprofit association of pension funds, other employee benefit funds, endowments and foundations, with combined assets that exceed $3 trillion. CII's non-voting members include asset management firms with more than $20 trillion under management. CII is a leading voice for effective corporate governance and strong shareowner rights. CII educates its members, policymakers and the public about corporate governance, shareowner rights and related investment issues, and advocates on its members' behalf.