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FOR IMMEDIATE RELEASE
Feb.15, 2018

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CII Applauds SEC Commissioner Jackson's Call for Listing Standards to Require Sunsets on Dual-Class Stock

Washington, D.C., Thursday, Feb. 15, 2018 — The Council of Institutional Investors (CII) applauded SEC Commissioner Robert Jackson Jr.'s call for U.S. stock exchanges to consider strengthening their listing standards to require U.S. publicly traded companies to sunset their common stock with unequal voting rights. Jackson, who was sworn in as an SEC commissioner on January 11, urged the exchanges to consider taking steps to prohibit companies with dual-class structures from listing on those exchanges if the structures do not include sunset provisions.

"We applaud Commissioner Jackson for using his first major public speech to support CII's ongoing efforts to address the problem of unequal voting rights," said CII Executive Director Ken Bertsch. "A dual-class structure without a sunset provision —'forever shares'— says to investors, 'we'll take your money, but we won't ever value your vote on how we use your capital to run the business over the long-term.' That's not equitable treatment of investors, and it's certainly not good corporate governance.

"We are encouraged by Commissioner Jackson's call for long-overdue improvements to stock exchange listing standards to place limits on the use of dual-class stock structures. We agree with Commissioner Jackson that those improvements should recognize the growing trend that dual-class companies have taken in recent years toward automatically sun-setting their superior class of stock."

While the vast majority of U.S. publicly traded companies (about nine in 10) have a "one share, one vote" structure, others have a superior class of common stock with more voting power, for founders, their families or other insiders. Typically, superior-class shares have 10 votes per share.

Unequal voting rights are a growing problem at companies making their initial public offering (IPO) on U.S. exchanges. In 2017,19% of U.S. companies that went public on U.S. exchanges had dual-class structures with unequal voting rights, CII has found.

CII and most institutional investors believe that when a company goes to the capital markets to raise money from the public, public investors should have basic rights and protections, including the right to vote in proportion to the size of their holdings. "Perpetual dual-class share structures with unequal voting power deny shareholders the means to press for change when something goes wrong, which happens inevitably at most companies," Bertsch explained. "Shareholders at such companies never have any say in electing the directors who are supposed to oversee management."

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