Hermes Equity
Ownership Services Limited
150 Cheapside
London EC2V 6ET
United Kingdom

Tel: +44 (0)20 7702 0888
Fax: +44 (0)20 7702 9452

www.hermes-investment.com

December 17, 2018

Elizabeth King
Chief Regulatory Officer
Intercontinental Exchange Inc.
11 Wall Street
New York, NY 10005

Dear Ms. King

We write this letter noting the Council of Institutional Investors' petitions at the NYSE and NASDAQ for listing standards that require time-based sunset provisions for companies with multi-class share structures that wish to list on the exchanges.

We agree with the CII that the NYSE should amend their standards regarding companies seeking to list that have multiple share classes with differential voting rights. They should include in their governance documents provisions that convert the share structure within seven years of the initial public offering (IPO) to "one share, one vote." This will ensure voting power is directly proportional to an investor's capital risk.

We also note the following discussion and evidence provided by the CII to support the petition:

- Recent academic research shows that while dual-class companies on average have a valuation premium at the time of IPO, that advantage dissipates between six and nine years after IPO and then disappears. "We believe seven years is sufficient time for a company to capitalize on whatever benefits and control a multi-class structure provides," CII Executive Director Ken Bertsch said. "After that, it starts to look like a management-entrenchment device."
- A growing number of companies are making their public debut with time-based sunsets. Of 38 U.S. companies that went public in 2017 and 2018 with multi-class structures, CII has tracked 11 (29%) that incorporated simple time-based sunsets.
- A small but growing share of multi-class IPO companies have used time-based sunsets successfully. Examples include Groupon (converted to a single share class after five years), Texas Roadhouse (converted after five years) and MaxLinear (converted after seven years). Investors have soured on Snap and other high-profile companies (Altice USA, Blue Apron) that made their IPO authorizing zero-vote shares.
- Well-established dual-class companies (notably CBS and Viacom) have been hugely distracted by fights related to control, and even privately-owned Uber decided to go to one-share, one-vote after scandal rocked the company

Silicon Valley entrepreneurs like to boast about disrupting the status quo. With good reason: From Alphabet (Google's parent) to Zillow, young tech companies have achieved success by upending traditional business models in one sector after another.

But when it comes to how they govern their companies many founders embrace frameworks that are bulwarks against change. In recent years, a significant number of start-up companies, most but not all tech-based, have gone public with dual- or even triple-class stock structures with unequal voting rights that guarantee founders and other insiders voting control that can last decades—even as their equity stake shrinks. In 2017, we saw the advent of zero-vote shares for outside holders when Snap went public.

Last year, 19% of U.S. companies that went public on U.S. exchanges had at least two classes of stock with differential voting rights. That is up from just 1% in 2005. In most cases, the superior class has 10 votes per share, while the inferior class has one vote per share. Supporters say this enables entrepreneurs to focus on the long term and resist pressure from investors to keep earnings growing every quarter.

But this "founder knows best" approach challenges the bedrock corporate governance principle of "one share, one vote": Providers of capital should have a right to vote in proportion to the size of their ownership. A single class of common stock with equal voting rights makes the board of directors accountable to all of the shareholders—and more likely to respond when management stumbles. Multi-class structures deprive public shareholders of a meaningful voice in how the company is run because the public shareholders lack the votes to influence the board or management.

We trust you understand our perspective and support of the CII petition. We would welcome the opportunity to discuss the contents of this letter with you.

Yours sincerely

Tim Goodman

Tim Goodman
Director

tim.goodman@hermes-investment.com