



# Council of Institutional Investors®

The voice of corporate governance

---

FOR IMMEDIATE RELEASE  
October 24, 2018

**Contact:**  
Rosemary Lally  
Editor  
202.669.8741  
[rosemary@cii.org](mailto:rosemary@cii.org)

## **Investors Petition NYSE, NASDAQ to Curb Listings of IPO Dual-Class Share Companies**

### **Exchanges Should Require Sunsets on Dual-Class Shares Within Seven Years of IPO to Counter Trend to Unequal Voting Rights that Deny Shareholders' the Ability to Hold Companies Accountable**

**Washington, D.C., October 24, 2018** — The [Council of Institutional Investors](http://www.cii.org) (CII) today filed petitions with the [New York Stock Exchange](http://www.nyse.com) (NYSE) and the [NASDAQ](http://www.nasdaq.com), asking both to limit listings of companies with dual-class share structures.

Specifically, the petitions ask the exchanges to amend their listing standards to require that, going forward, companies seeking to list that have multiple share classes with differential voting rights include in their governing 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 directly proportional to an investor’s capital at risk.

CII, which represents pension funds and other long-term investors, is urging the exchanges to act to counter the trend of companies going public with unequal voting rights, which deprive shareholders of the means to hold executives and directors accountable.

“While some companies that are controlled by virtue of special voting rights function as benevolent dictatorships, we have seen others stumble because of self-dealing, lack of strategic planning and ineffective boards,” said CII Chair [Ash Williams](http://www.ashwilliams.com), executive director and CIO of the Florida State Board of Administration. “When problems emerge, external shareowners have little recourse. Now, a consensus is emerging—among investors, companies and the law firms and other IPO gatekeepers—that time-based sunsets are a sensible solution to the growing problem of unequal voting rights, which poses danger to long-term resilience of an increasing number of companies.”

[BlackRock](http://www.blackrock.com), the largest global asset manager, believes that one share, one vote is the preferable structure for publicly listed companies. BlackRock also supports time-based sunset provisions for multi-class companies and believes that listing exchanges must play an important role.

---

*The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of pension funds, other employee benefit funds, endowments and foundations, with combined assets that exceed \$4 trillion. CII's non-voting members include asset management firms with more than \$25 trillion under management. CII is a leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.*

“BlackRock believes that equal voting rights are a fundamental tenet of good corporate governance. Multiple stakeholders – including listing exchanges and policymakers – must play a role in setting effective corporate governance standards to protect shareholder rights,” said BlackRock Co-founder and Vice Chairman [Barbara Novick](#). “We encourage U.S. exchanges to show global leadership on voting rights by requiring companies to either automatically convert or give shareholders the right to extend a multi-class structure. Doing so will re-establish the importance of equal voting rights for all public shareholders.”

Donna Anderson CFA, vice president and head of corporate governance at asset manager [T. Rowe Price](#), said, “A confluence of events has led to what we believe is a growing consensus on the issues surrounding differential voting rights. We would like to see the U.S. stock exchanges lead the process to find a solution that serves the long-term interests of all market participants.”

[California State Teachers' Retirement System](#) Chief Executive Officer [Jack Ehnes](#) said, “One of the strengths of the U.S. economy is the dynamism of U.S. companies. Successful American companies are constantly changing—and reinventing the way they do business. So it only makes sense that they should embrace change in their own governance that ultimately will strengthen shareholder value.”

“[CalPERS](#) believes in one share, one vote,” said Simiso Nzima, the California Public Employees' Retirement System's head of corporate governance. “However, we also understand that early in a company's public life, there may be a need for protections that enable management to focus on building out a company's vision and creating the long-term sustainable shareowner value we are looking for as investors. We strongly believe such protection should not be perpetual, and mandatory time-based sunsets should act as an important safeguard against managerial entrenchment.”

CII Executive Director [Ken Bertsch](#) agreed that there is convergence in favor of time-based sunsets within seven years after IPO as a condition of listing on a U.S. exchange:

- 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,” 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

### **Background:**

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.

Academic research supports time-based sunsets. A recent study, “[The Life Cycle of Dual Class Firms](#),” found that while multi-class companies have a value premium over single-class counterparts at the time of their initial public offering (IPO), that benefit fades to a discount six to nine years after IPO. Other studies show that multi-class companies have a substantially lower total shareholder return compared to single-class companies over 10 years.

The Securities and Exchange Commission (SEC) believes it lacks the statutory authority to compel U.S. exchanges to amend their listing rules. Over the past year, providers of benchmark indexes—FTSE Russell, MSCI and S&P Dow Jones—have stepped into the breach, with varying curbs on multi-class companies in indexes that are used widely by institutional investors. A listing standard would put all dual-class companies on the same footing.

###

**About CII:** *The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of pension funds, other employee benefit funds, endowments and foundations, with combined assets that exceed \$4 trillion. CII’s non-voting members include asset management firms with more than \$25 trillion under management. CII is a leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.*