

Align capital markets to long-term value creation

Europe's listed companies plead for political action to support responsible shareownership

„Aiding the banking sector is only the first step to resolve the financing crisis of European companies. Political action is needed not only in addressing credit finance, but in revitalizing corporate finance markets overall. Guarantees and additional tax benefits for investors would be an adequate response to this challenge“ said Hellmut **Longin**, President of Aktienforum.

It was undoubtedly necessary to stabilize the banking system. But policy makers have to be reminded of the fact that companies depend not on bank loans only. Between 2003 and 2007 equity and bonds accounted for 22,5 % of total external financing of Austrian companies, while loans only made up about 20,6 %. In 2008 capital market finance was down to only 12,3 % of their financial resources. Overall Austrian companies saw their external funds reduced by 30,6 % (or € 8 Bill.) compared to the previous year. „Public discussion should focus on ‚good companies‘ instead on ‚bad banks‘. For us state guarantees for investing in successful and promising companies would lead to a much faster and more effective economic recovery than clearing ‚toxic assets‘ from bank balance sheets“, Longin concluded.

“If the focus in the last decade had been on more sustainable values, we could at least have mitigated some effects of the crisis.” says Jacques **Schraven**, Chairman of EuropeanIssuers. He points to the fact that in recent years short term shareholder value was the overriding driving force for company management. While companies were struggling to add real value through innovation and hard work, buyers of financial instruments expected short term value creation at rates of 15 % or more. “This was clearly not sustainable,” adds Schraven, “the short term-ism of such approach was bound to clash with the long term approach of an economic undertaking.”

Hence the importance of long term shareholders, believes the Chairman of the pan European association of issuers. They should also be encouraged and rewarded in assuming their responsibility as owners. Schraven has a few ideas of his own to strengthen ties with long term shareholders: “We could for instance make shareholder rights conditional on the fulfilment of certain criteria. One determining factor could be the duration of the share ownership.” Schraven sees benefits in granting long term shareholders multiple voting rights or a loyalty dividend. “The differentiation of treatment is to reward responsible owners and “stabilize” the shareholder base, not to make the management complacent. This should be viewed as a measure of good corporate governance” ends Schraven.

Dorien **Fransens**, Secretary General of EuropeanIssuers, believes that issuers and shareholders have no direct relationship anymore. Fransens sees an urgent need for an EU wide framework for shareholder communication and cross border voting. “We

see it as our duty to find practical - and where necessary legal - ways to make this relationship work again”, Fransens adds.

Companies should have the right AND the ability to identify their shareholders. “How can you communicate with your shareholders if you don’t know who they are?” Fransens questions. And there is an additional difficulty. Some say that the smooth functioning of capital markets relies on the use of sophisticated instruments like stock lending or short selling. However, this makes shareholder identification even more difficult. These practices allow “empty voting” at shareholders’ meetings.

“Shareholders deserve more efficient voting procedures”, Fransens continues. Foreign ownership of shares is growing, but the cross border exercise of corporate rights is hampered by technical and legal obstacles. Securities are held in accounts with financial intermediaries located in various countries and there is often a lengthy chain of intermediaries between the shareholder and the company. Fransens is however hopeful that pending market standards on general meetings and an upcoming legislative proposal will prompt the intermediaries to form the bridge between companies and shareholders.

“We truly believe that it will be the entrepreneurial spirit of companies that will bring us out of the economic downturn ultimately. Policy action might help, or might not, it might ignite or choke economical potential, but at the end of the day it will be the companies to transpose this potential into real economic value, supported by investors committed to long term value creation. This is our common vision of the new financial architecture after the crisis”, Markus **Fichtinger**, Aktienforum’s Managing Director, concluded.

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About Aktienforum

Aktienforum represents the interests of Austria’s listed companies and acts as a platform to promote the Austrian capital market. Founded in 1989 Aktienforum pursues the interests of its members on a European as well as a national level covering all relevant capital market related issues. Aktienforum is member of EuropeanIssuers and the European Association for Share Promotion – EASP.

About EuropeanIssuers

EuropeanIssuers is the first and only pan European organisation created to promote the interests of issuing companies. It represents the vast majority of publicly quoted companies in Europe. Its members are national associations and companies from 15 European countries counting together some 9.200 listed companies with a combined market value of some € 5.000 billion. EuropeanIssuers ultimate goal is to achieve fully integrated, liquid and well functioning European financial markets. EuropeanIssuers is an international not for profit association under Belgian law (ivzw-aisbl) based in Brussels.