OECD-Assonime Expert Meeting on

Corporate Governance, Value Creation and Growth

10 June 2013

Assonime, Piazza Venezia 11, Roma, Italy

Background

The purpose of the *OECD Principles of Corporate Governance* is to bridge the gap between finance and enterprise. This requires an effective and credible regulatory framework that defines the conditions under which corporations can access public equity markets and the terms on which shareholders can participate in company affairs and share in its profits. By establishing this regulatory framework, the quality of corporate governance policy is of fundamental importance for getting investment, job creation and growth in the private sector.

Against this background, the OECD Corporate Governance Committee agreed to launch the project *Corporate Governance, Value Creation and Growth* which started in 2013 and will run over two years. The inquiry is primarily focused on how a decade of rapid changes in the way financial markets and corporations function has affected the conditions for public policy in the field of corporate governance. The project will map changes in the structure and functioning of equity markets that may influence its role as capital provider to growth companies. It will address developments in ownership structures at company level and the implications of changes in intermediary ownership, new investment strategies and trading practices. The results will provide fact-based analytical input to the upcoming review of the OECD Principles.

Organisation of the meeting

The expert meeting in Rome will scrutinize and provide input to some of the work that is now underway. Notably it will discuss how changes in the structure and functioning of equity markets have affected the use of primary equity markets, investor confidence and the economic incentives among shareholders to engage in informed governance. It will also discuss the growing importance of emerging markets; their opportunities and challenges and the implications of a growing number of companies with controlling owners worldwide.

Background materials for the discussion include:

- *Corporate Governance in Emerging Markets*, by Bekir Sitki Safak
- *Making Stock Markets Work to Support Economic Growth*, by David Weild, Edward Kim and Lisa Newport
- *One Size Does Not Fit All: Corporate Governance for Controlled Companies*, by Karl Hofstetter
- *One Size for All? – The European Union Experience*, by Rolf Skog
- *Who Cares? Corporate Governance in Today's Equity Markets*, by Mats Isaksson and Serdar Celik

Each session will be briefly introduced by a lead discussant and then the floor will be open to all participants. The lead discussant will also structure discussions along the background and questions provided in the agenda and will keep the discussions interactive. The objective is to stimulate reflection and encourage the exchange of views and experience among all the participants.

Welcome dinner

All participants and their accompanying persons are warmly invited to a dinner on Sunday, 9 June 2013 at 20:00 at Ristorante Vecchia Roma, hosted by Assonime.

9.30-9.45 Welcome remarks by Stefano Micossi, Director General, Assonime

9.45-10.00 Introduction by Marcello Bianchi, Chair, OECD Corporate Governance Committee; Director, CONSOB

10.00-11.00 Structural changes and the use of primary equity markets

For decades, well-functioning equity markets have been seen as a prerequisite for private sector innovation, job creation and long-term value creation in corporations. But recent developments have called into question the ability of public equity markets to serve this function. Primary markets in many OECD economies do not provide risk capital for new growth companies anymore and small and medium-sized companies keep disappearing from many markets. This session will discuss the root causes of this development. Is the drop in new IPOs during the last decade just a cyclical phenomenon or are there also more structural factors in terms of how equity markets function, trading practices or regulatory burdens?

Lead discussant: David Weild, Chairman and CEO, Weild & Co. Holdings

- What are the impacts of the new market structure on the willingness of new companies to enter public equity markets? Do aftermarket economic incentives play an important role?
- Do the increased use of ETF and indexing and the dominance of high frequency trading lead to an illiquidity problem for smaller companies which discourages growth and medium-sized companies to go public?
- Would an opt-out from being tracked by indices or included by exchange-trade funds be an option for listed companies?
- Do the cost and effectiveness of corporate governance requirements, including corporate reporting, influence the willingness of companies to enter public equity markets?

11.00-11.15 Coffee break

11.15-12.15 Incentives for engagement and investor confidence

In the last decade, de-regulation and new computer based technology have created new "categories" of institutional investors, like high-frequency traders. These investors are heavily invested in software and computer hardware with privileged access to order information, through so called co-location. These practices, and increased complexity in terms of orders, have given rise to two concerns.

First, they are considered to create an uneven playing field among shareholders, where traditional institutions (and certainly retail investors) are left with a systematic, competitive disadvantage. This may in turn erode confidence in public equity markets and diminish the supply of savings into equity. For instance, the Chicago Booth/Kellogg School Financial Trust Index reports that only 13% of respondents as of December 2012 had trust in stock markets.

The second concern is that the dominance of trading practices that build on market-level price movements in themselves (and almost per definition) erodes any incentives to engage with individual corporations and monitor corporate activities.

Lead discussant: Mats Isaksson, Head of Corporate Affairs Division, OECD

- How have changes in equity market structure and trading practices, such as high frequency trading, ETFs, and market fragmentation, influenced the incentives of shareholders to engage in the governance of companies?
- How do different business models and strategies of institutional investors influence their incentives and capacity to contribute to corporate governance practices?
- Does the increasing complexity of equity markets have an adverse impact on investor confidence in the fairness and transparency of stock markets? For example, do dark pools lead to weaknesses in the price discovery process in public equity markets?

12.15-13.15 The law and economics of controlling owners

One important consequence of the global trends in equity markets and changing corporate landscape is the impact on ownership structure at company level. The shift of new listings towards emerging economies, an increase in de-listings in the US and the UK together with private equity activities have all been in favour of controlling ownership structures. As a result, the share of stock markets that traditionally hosted companies with dispersed ownership has during the last decade decreased by some 30% - from 56% to 40% - of global market capitalization. Still, most of the corporate governance debate (and policy initiatives) assumes a dispersed ownership structure and the problems emerge from the separation of ownership and control. Since a dominant part of listed companies around the world has a controlling owner, this approach has important limitations. This session will focus on the law and economics of controlling owners in corporate governance. It will discuss the challenges and opportunities that come with the presence of strong owners and how such ownership structures can be regulated to ensure equitable treatment and investor confidence.

Lead discussant: Erik Vermeulen, Professor of Business Law & Finance, Tilburg University
Vice-President, Corporate Legal Dept., Philips International B.V.

- What are the characteristics of the controlling ownership structure and the role of minority shareholders in their corporate governance framework?
- Are there any trends in global capital markets which may change the traditional perception of ownership structures and corporate governance practices?

- What are the limits of contractual freedom in listed companies?

13.15-14.30 Buffet lunch hosted by Assonime

14.30-15.30 The role of traditional institutional investors

Today, traditional institutional investors, pension funds, mutual funds and insurance companies, hold nearly half of the listed equities globally, with a total market value of USD 26 trillion. The shift in share ownership from individual direct owners to institutional owners has been recognised in corporate governance public policy and is accompanied by an expectation of *increasing demand for a voice in corporate governance* due to the rise of professional investors. However, this expectation has not always been met. While there is a general consensus that shareholder rights in OECD countries have been substantially strengthened over the last few decades and turnouts in shareholder meetings are quite high in many countries, shareholders have been largely passive relying on proxy advisors for voting. This session will address the quality of institutional investors' engagement with investee companies and question whether they actually have the incentives to use their rights in an informed way thus contributing to long-term value creation. The session will recognise that institutional investors are not a homogenous group and that as such their incentives to engage are decided by their business model, competitive environment and investment strategy rather than the share ownership.

Lead discussant: Robert Ohlsson, Partner, Nord & Co.

- To what extent do traditional institutional investors actually perform their fundamental role to bring new and independent information about corporate prospects to the equity market?
- How have changes in the equity market structure and trading practices influenced the asset management strategy of traditional institutional investors?
- Have the changes led to an increased short-termism among traditional institutional investors? Are average holding period data sound indicators of short termism in the markets?
- Do high frequency traders' expensive investments in technological infrastructure, co-location and human resources devoted to programming create an unlevel playing field between high frequency traders and traditional institutional investors? Does the new market structure crowd out long-term investment strategies?

15.30-15.45 Coffee break

15.45-16.30 Emerging markets' perspective

The global economy has been reshaped by an extensive shift of wealth towards emerging economies over the last few decades. This has been coupled with a shift of initial public offerings. Stock markets in emerging markets provided almost 55% of the total equity capital that companies raised during the period 2008-2012. During the period 1955-2003, the share provided by emerging markets was less than 20%. Considering the high level of integration of global financial markets and considerable share of emerging economies, the implications of these developments should not be analysed in an isolated "emerging market" context. This session will therefore explore the effects of these developments in a broader context that also includes other dimensions of the shift in economic activity towards emerging economies.

Lead discussant: Bekir Sitki Safak, Acting Chair, Capital Markets Board of Turkey; Vice Chair, OECD Corporate Governance Committee

- To what extent have emerging economies' equity markets been influenced by the global changes in market structures and trading practices?
- What are the risks and opportunities related to these corporate governance arrangements; for example in relation to access to capital and market confidence?
- To what extent do corporate governance practices of current listed companies influence the level of appetite to invest in listed equities in emerging markets?
- What are the corporate governance public policy priorities to increase savers participation in equity markets?
- Is there a low free-float problem in emerging market?

16.30-17.00 Future work

The Group will be invited to provide advice on the future direction and substantive content of the project on corporate governance value creation and growth.