

Are two better than one?

The Singapore Exchange (SGX) has launched a public consultation on dual-class shares (DCS), taking it one step closer to allowing the controversial structure on the market.



Key proposals

Additional listing criteria

- New Mainboard listings only
- Market capitalisation of at least S\$500 million
- The total shareholding of sophisticated investors post-IPO should be at least 90 per cent of the minimum public float requirement

IPO market cap	Minimum total sophisticated shareholding
At least S\$500m to less than S\$1b	13.5%
At least S\$1b	10.8%

- There should be a compelling reason to adopt a DCS structure. What constitutes “compelling” should be assessed holistically

Safeguards against entrenchment

- Maximum voting differential of 10 times
- Restrict issuance of superior-class shares after listing, except in the case of rights issues
- Automatically convert superior-class shares into ordinary-class shares upon sale or transfer, or if owner manager ceases management role
- Consider mandatory sunset clauses that will automatically convert superior-class shares into ordinary-class shares when certain conditions are met

Safeguards against expropriation

- Compulsory compliance with the Code of Corporate Governance on board composition and independence matters
- Voting on independent directors on a one-share, one-vote basis
- Compulsory board risk committee
- Mandatory coat-tail provisions to ensure equal treatment across all classes of shares in a takeover situation

Measures to increase clarity

- Prominent disclosure of DCS-related risks in prospectuses
- Disclose holders of superior-class shares regardless of shareholdings
- Clear demarcation of DCS structures on trading screens

How others do it

United States	<ul style="list-style-type: none">■ Allowed under company law and on NYSE and Nasdaq■ Listed issuers with one-share-one-vote structure not allowed to implement a DCS structure that would reduce or restrict interests of existing shareholders
United Kingdom	<ul style="list-style-type: none">■ Allowed under company law, and for Standard listings on the London Stock Exchange
Canada	<ul style="list-style-type: none">■ Allowed under company law and subject to conditions on TSX■ Listed issuers may create multiple voting classes subject to approval from independent shareholders■ Must have coat-tail provisions to ensure equal treatment in takeovers■ Distinct stock symbols designate DCS structures
Sweden	<ul style="list-style-type: none">■ Allowed under company law, subject to a cap of 10 times on voting rights differentials, and on Nasdaq Oslo Stockholm
Hong Kong	<ul style="list-style-type: none">■ Allowed under company law, but not permitted for listings on Hong Kong Exchanges and Clearing■ Currently reviewing policy after rejection of previous proposal in 2014
Australia	<ul style="list-style-type: none">■ Allowed under company law, but not on ASX

Timeline ahead

Apr 17, 2017	Close of consultation
Q3 2017	Earliest possible start of consultation on changes to listing rules if SGX decides to proceed with dual-class shares

Will it happen?

SGX says that nothing has been decided, and whether the market regulator allows DCS listings will depend on whether there is “market consensus”.

SGX declined to define its threshold for “market consensus”, but SGX head of equities and fixed income Chew Sutat said at a press briefing that the exchange will seek appreciation from all stakeholders that a “balance is obtained”.

That the SGX should explore the issue and try to make it happen, however, is a view with notable support. The recently concluded Committee on the Future Economy’s subcommittee on connectivity, for example, recommended allowing DCS structures “with appropriate safeguards”.