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The European Confederation of Directors' Associations

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ecoDa The European Voice of Directors

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EU grants more power to shareholders while recognizing different European Corporate Governance models

EU Institutions reached a deal on the Shareholders Rights Directive last week under the Slovak Presidency. The compromise represents a step forward by promoting the reliability of proxy advisors, by stimulating shareholder dialogue and shareholder monitoring, (also in relation to executive remuneration) and by increasing the scrutiny on related parties' transactions.

The judgement whether the directive will effectively lead to more engagement and long-term thinking from institutional investors and succeed in facilitating the exercise of shareholder rights is certainly more controversial. Especially in models with dispersed shareholding, it remains to be seen whether this Directive will ultimately result in more effective shareholder monitoring. As ecoDa questioned in previous position papers, turning passive and fragmented shareholders into active monitors is a great challenge. The result could well be that it will create a much more powerful position in a very concentrated market of proxy advisors (with potentially a kind of concerted action above the 30% level). Is that what the EU wants to achieve? Should we, at the same time, not devote more energy to further developing the professionalism of boards as the first monitor, whatever the shareholding model might be?

At the other hand, ecoDa is pleased that the EU directive explicitly recognizes the differences in corporate governance models that prevail in European Member States. The compromise offers indeed more flexibility to Member States, e.g. in the way they plan to implement the say on pay. The directive also moves away from the one-size-fits-all approach and allows SMEs to make remuneration one item on the agenda of the general assembly without a formal vote.

As stated by Lutgart Van den Berghe (Chairwoman of ecoDa's Policy Committee), "*the EU is not evolving away from the Comply or Explain example*". For instance, proxy advisors must specify their reference code of conduct and if they do not apply it, they have to explain why. Institutional investors and asset managers must publish annually how their commitment policy has been implemented. "*It is now up to the business community to make it work*", as added by Lutgart Van den Berghe.

The compromises comes at a point in time when the debate on Corporate Governance is shifting to a more stakeholder-oriented approach and when there is a growing demand to balance better the interests of shareholders with the interests of other stakeholders. "C*ompanies should develop a governance model that allows them to make decisions in the long-term interest of their company, their shareholders, and other stakeholders. If too much attention is paid to excessive formalism, we may lose sight of the true essence of good governance: Making the enterprise not just more governance-compliant, but more successful and sustainable for all.*" concluded Turid Elizabeth Solvang, ecoDa Chair.

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Notes to editors
The European Confederation of Directors Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its national institutes of directors (the main national institutes in Europe), ecoDa represents approximately 55,000 board directors from across the EU. ecoDa's member organisations represent board directors from the largest public companies to small private firms, both listed and unlisted.

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