

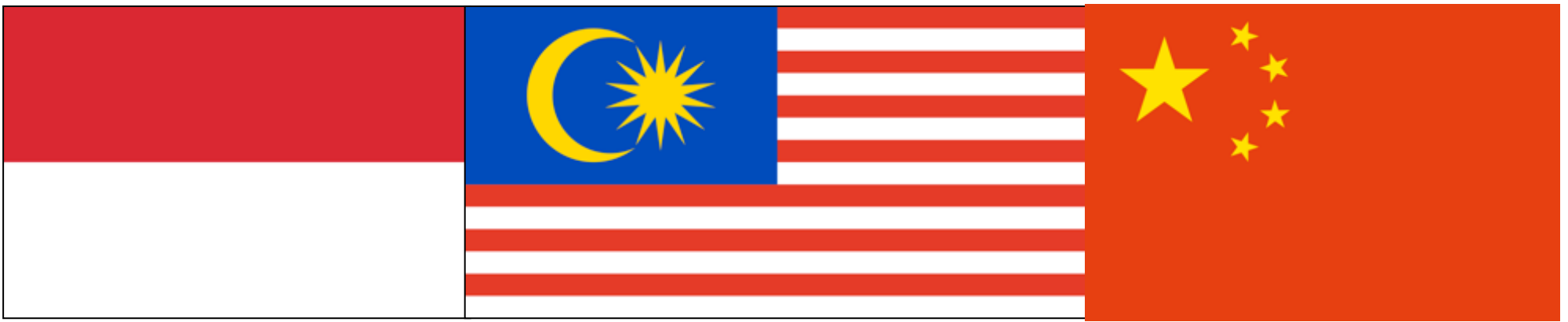


BENEFICIAL OWNERSHIP & CONTROL

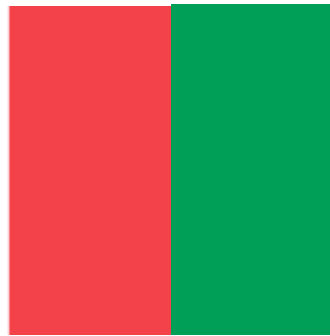
STRINGENT VERSUS FLEXIBLE RULES

Erik P.M. Vermeulen

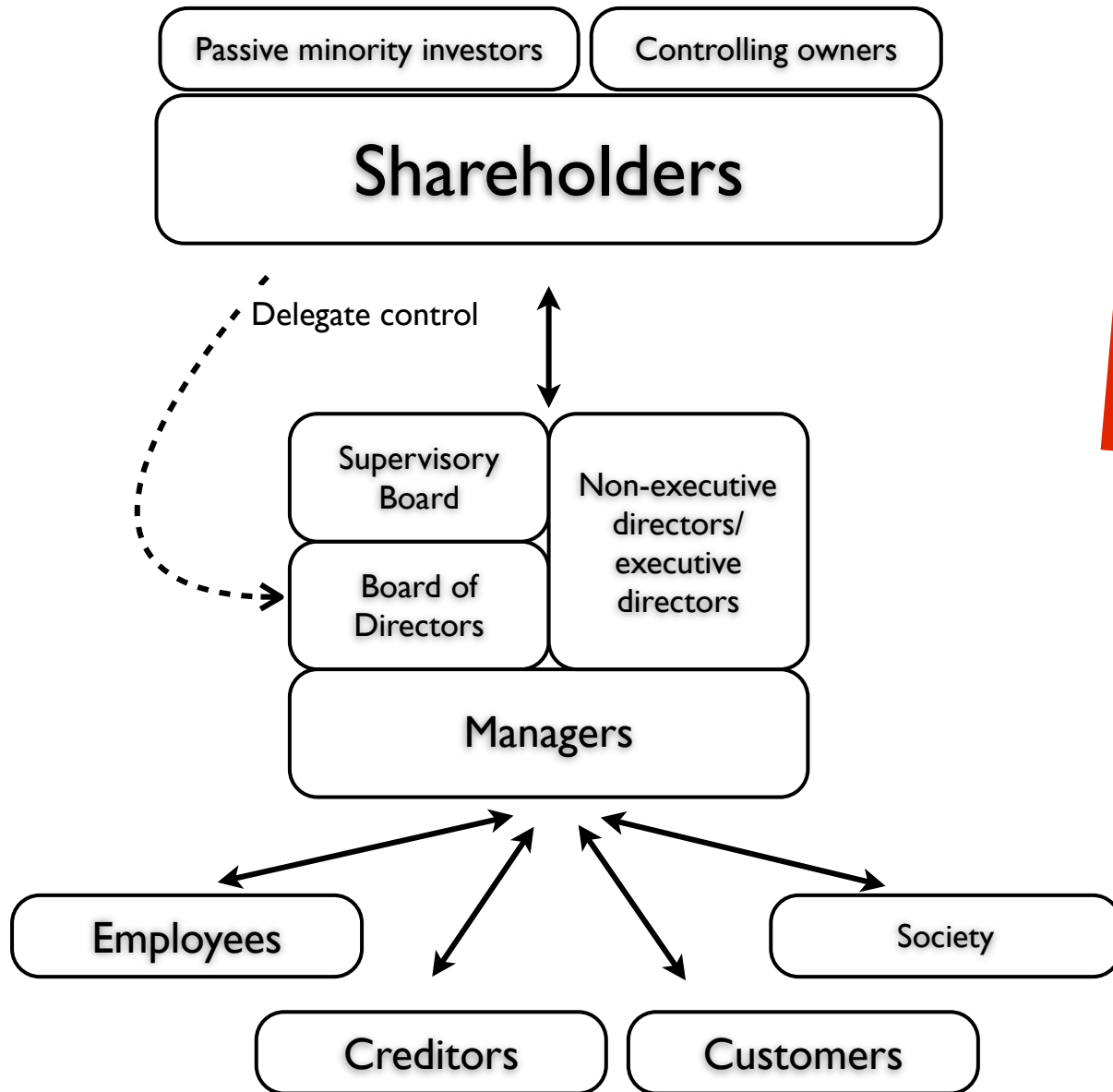
30 March 2012
Moscow, Russia



Comparative Study



Disclosure is the Linchpin of Corporate Governance



- (1) Dilutive share issues
- (2) Insider trading
- (3) Related Party Transactions

Market Efficiency

Questions?

What should be disclosed?

Who will have access to the disclosed information?

Through which channels?

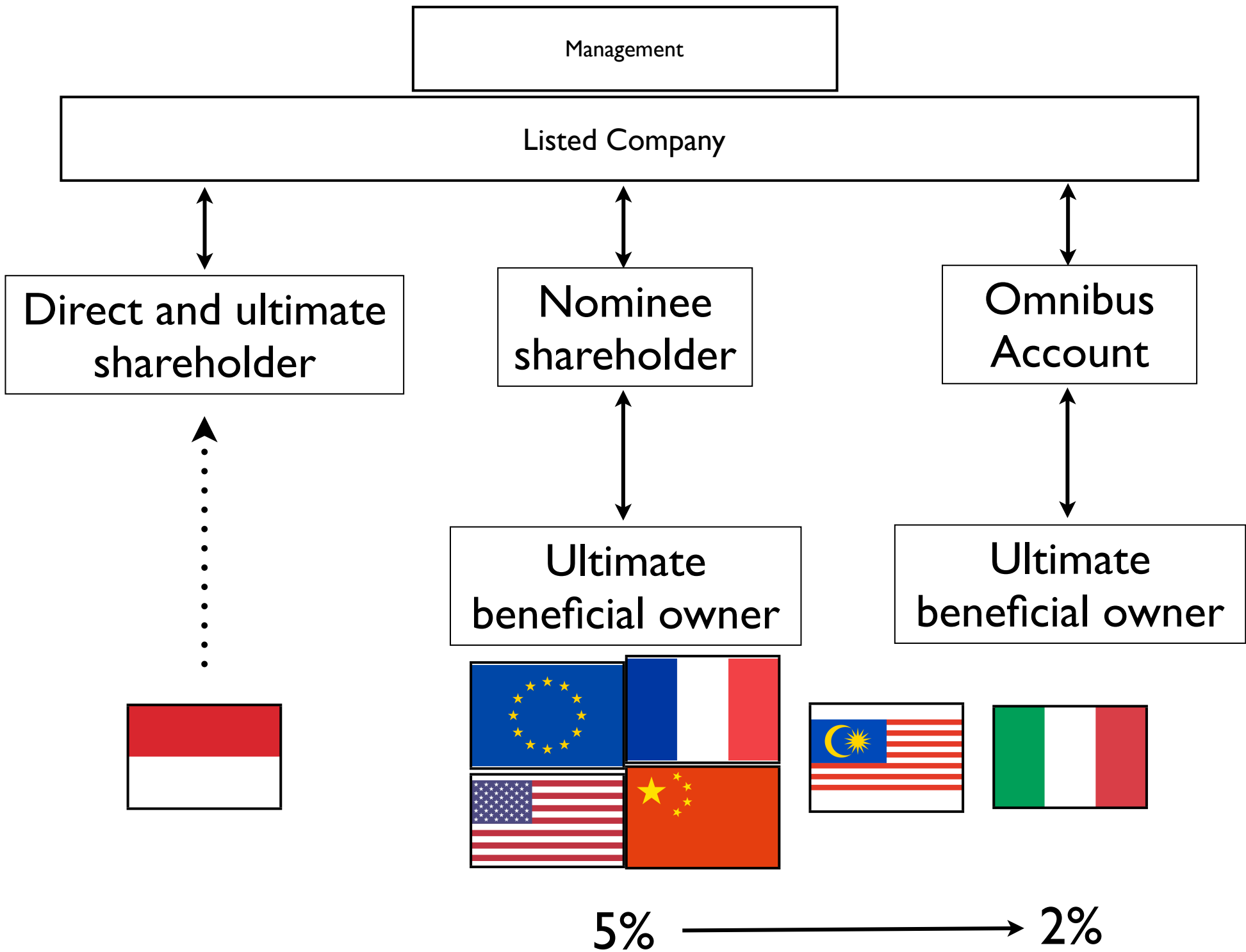
**Identity & Control
of Ultimate
Beneficial Owner**

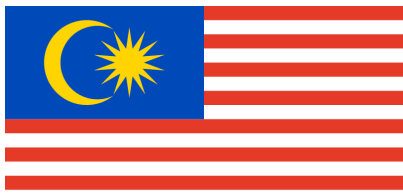


Who - and at which level - should disclose/report a stake in the company?

When should the disclosure be made and to whom?

The Rules

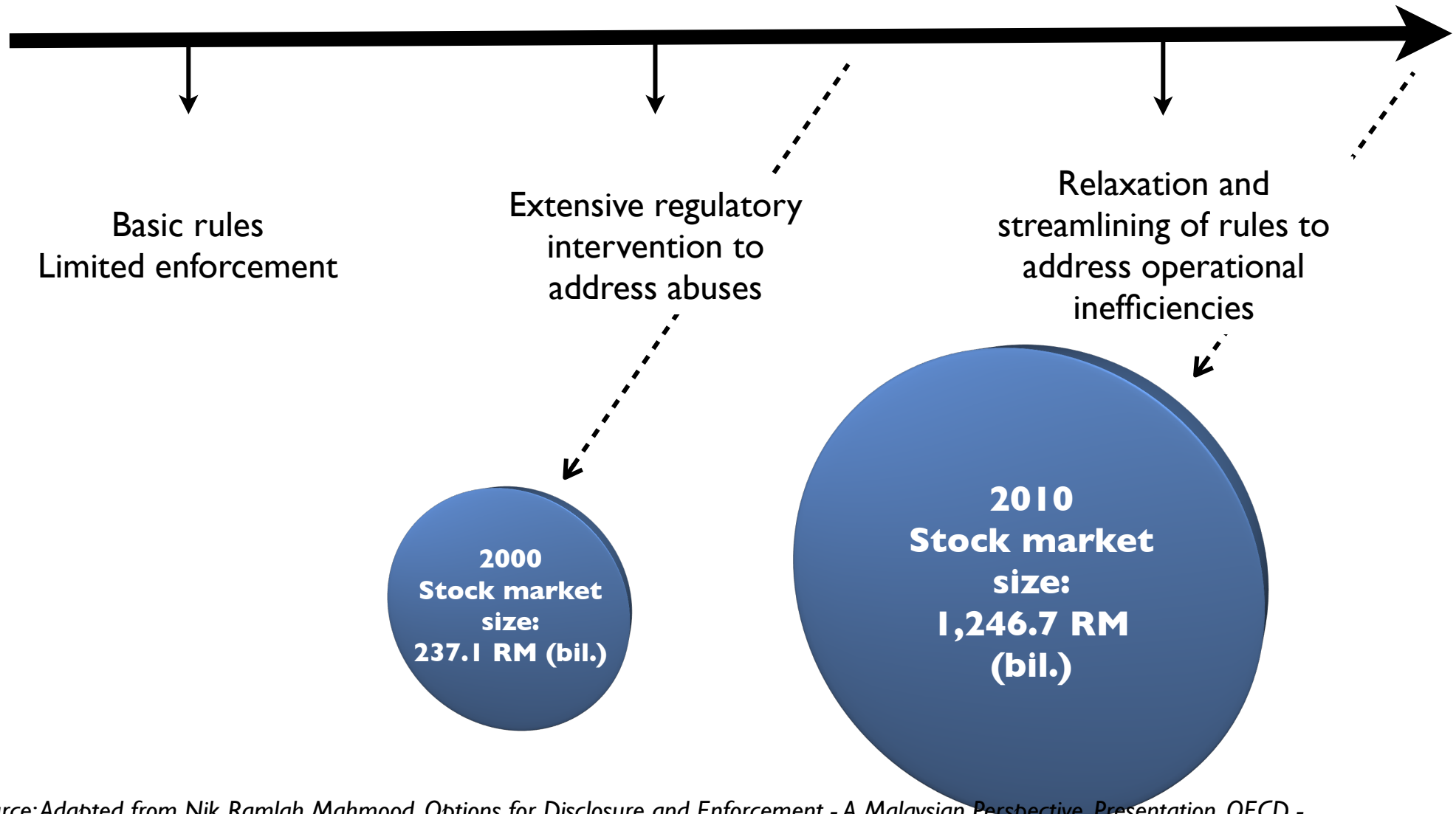




Asian Financial Crisis 1997/98

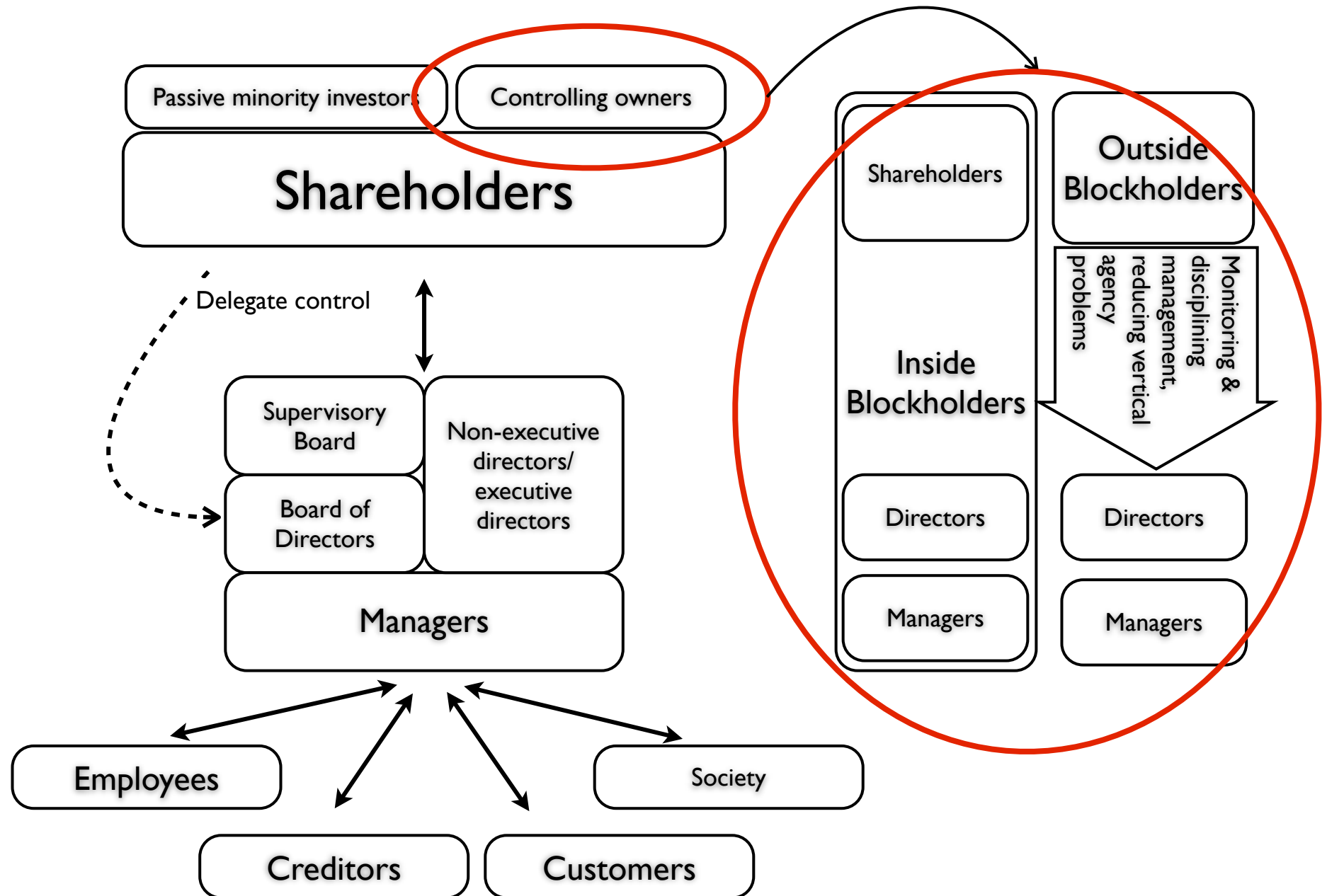
Pre 1997

2005

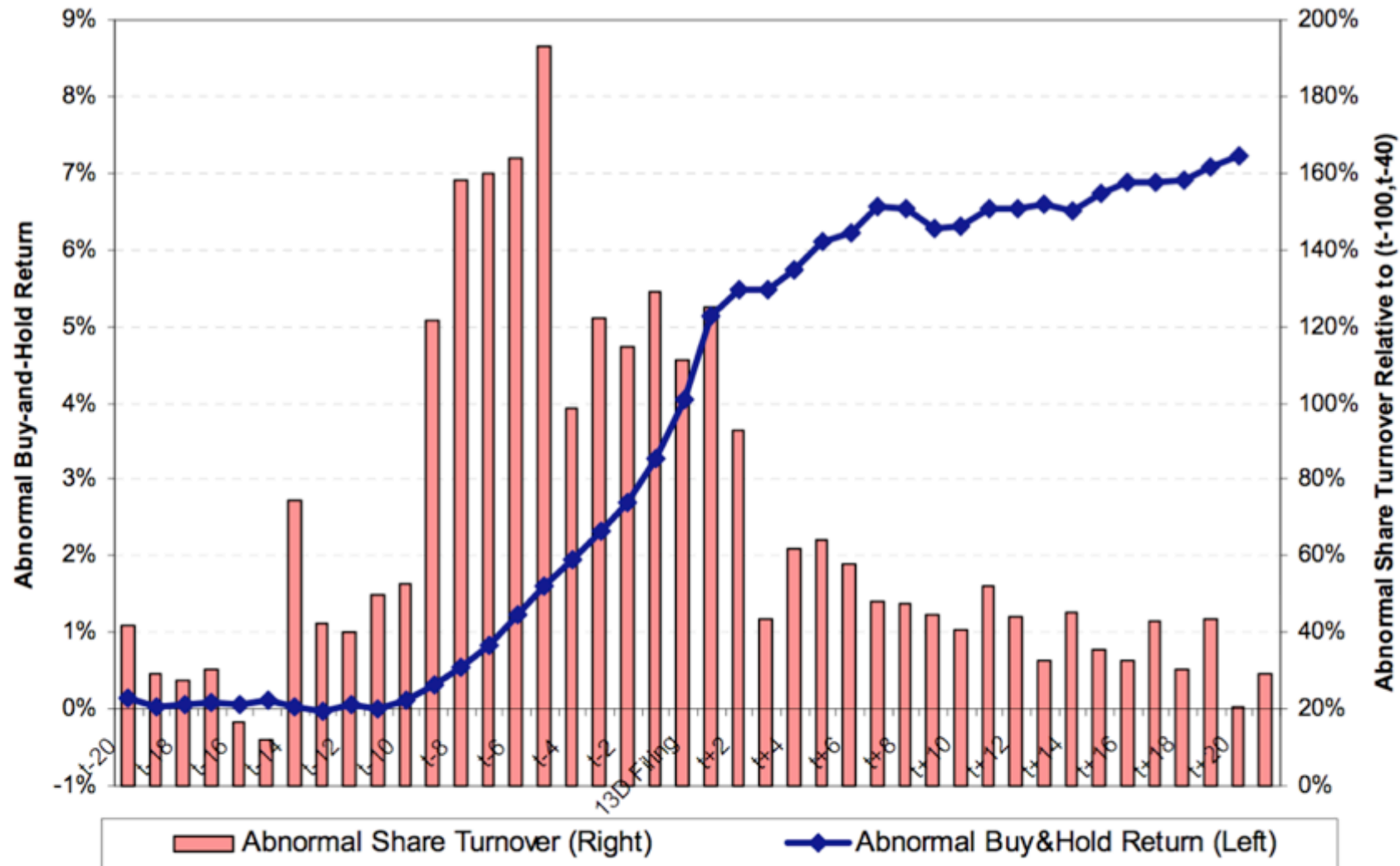


Source: Adapted from Nik Ramlah Mahmood, *Options for Disclosure and Enforcement - A Malaysian Perspective*, Presentation, OECD - Indonesia Policy Dialogue, Disclosure of Beneficial Ownership and Control, October 2011.

Costs of Disclosure & Reporting



The Effect of Disclosure & Outside Blockholders



Source: Brav, Jiang, Thomas and Partnoy, *Hedge Fund Activism, Corporate Governance, and Firm Performance*

Listed Company

Minority shareholder with controlling multiple voting rights
Direct Shareholder

Prurchases shares as hedges
Short party (Investment bank)

50.1%
Subsidiary of subsidiary of ultimate beneficial owner

1. Fees
2. Interest
3. Making good for decreasing stock price
1. Stock price increase
2. Dividends

60%
Subsidiary of ultimate beneficial owner

Long party (Investor)

Voting rights exceeding cash flow rights

Cash-settled equity derivatives

Separation between economic risks and control

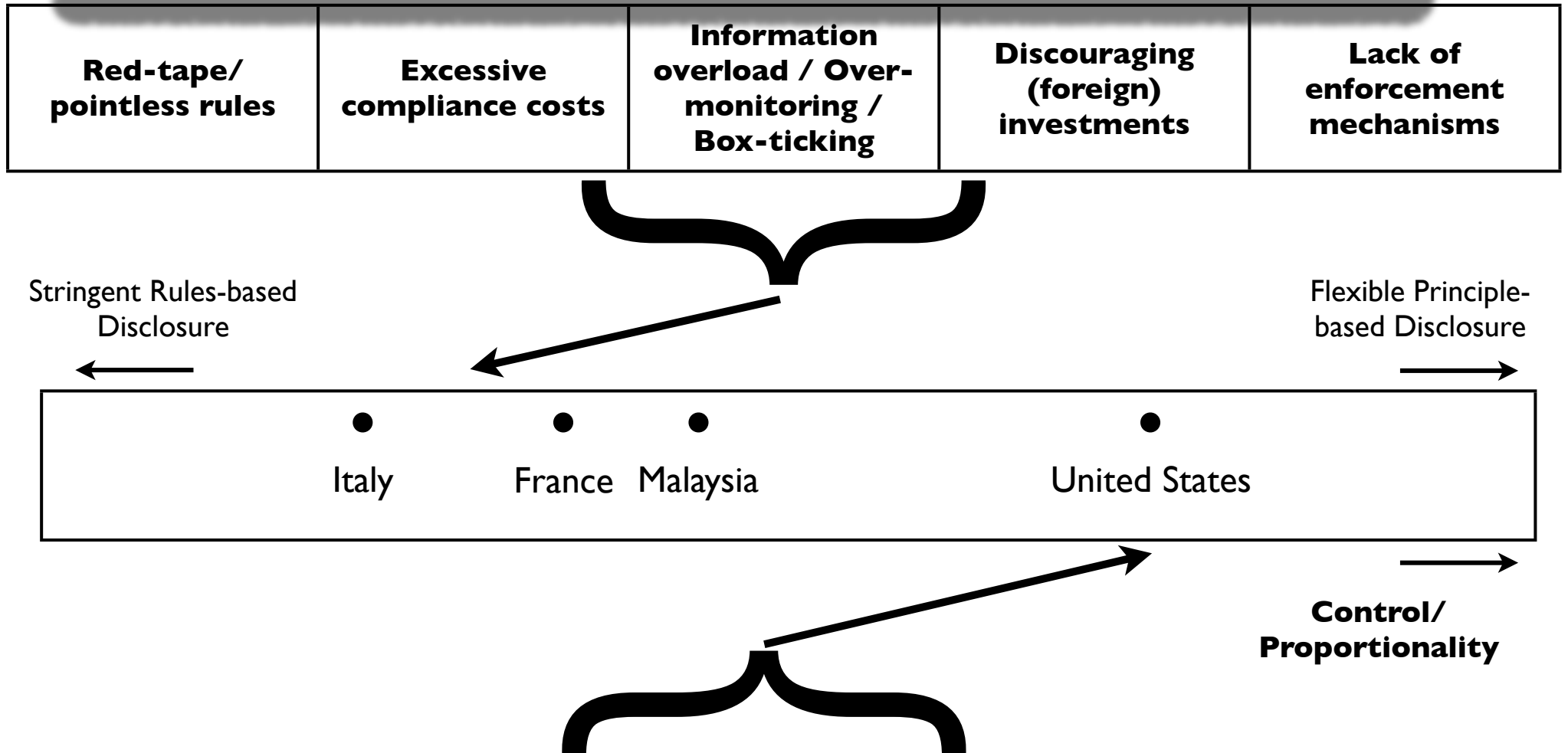
“Hidden ownership” and “empty voting” problems

70%
Ultimate beneficial owner - control with 21% of cashflow rights in listed company

Control Enhancing Mechanisms

Derivatives

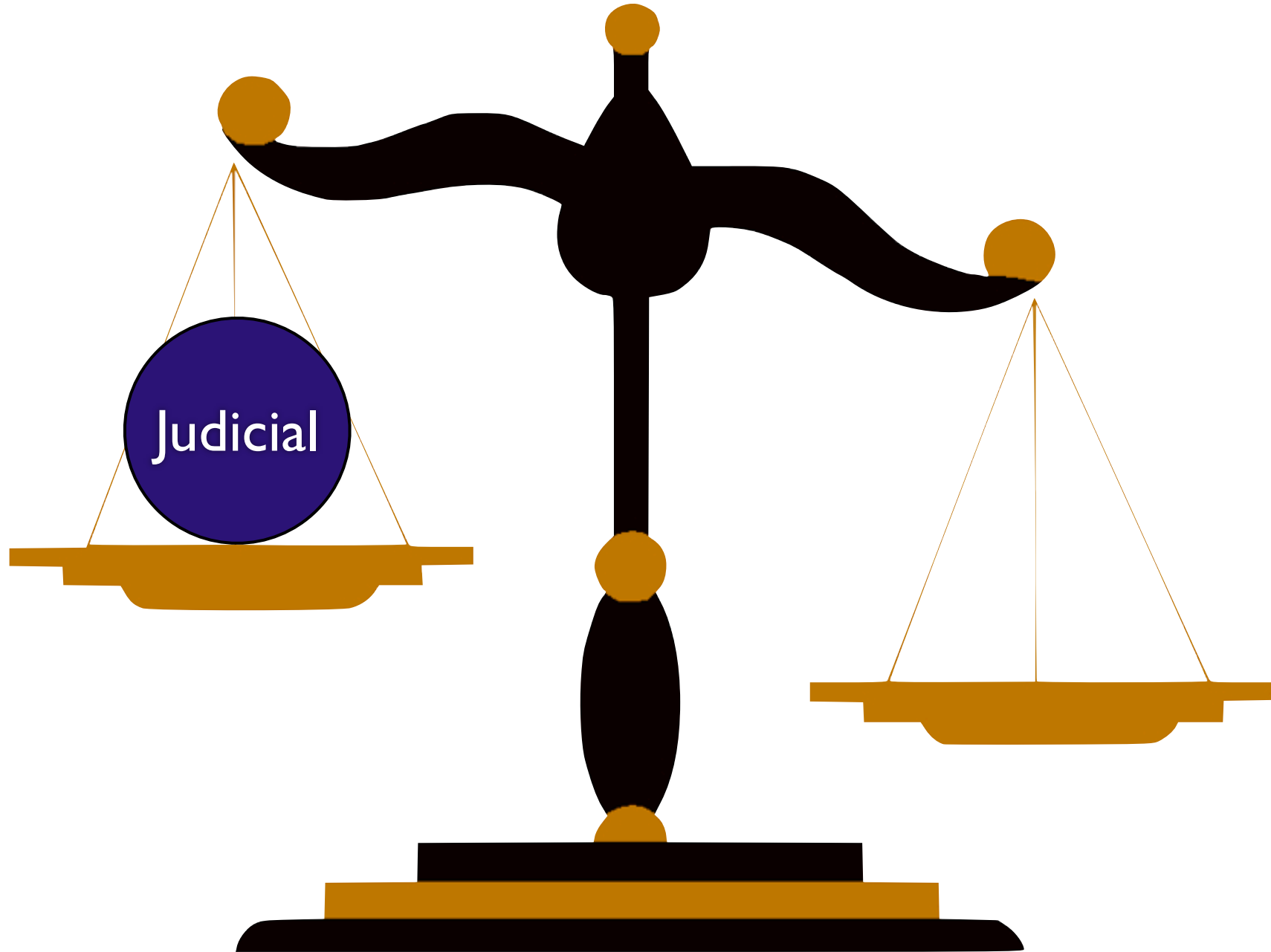
Costs of stringent disclosure rules!

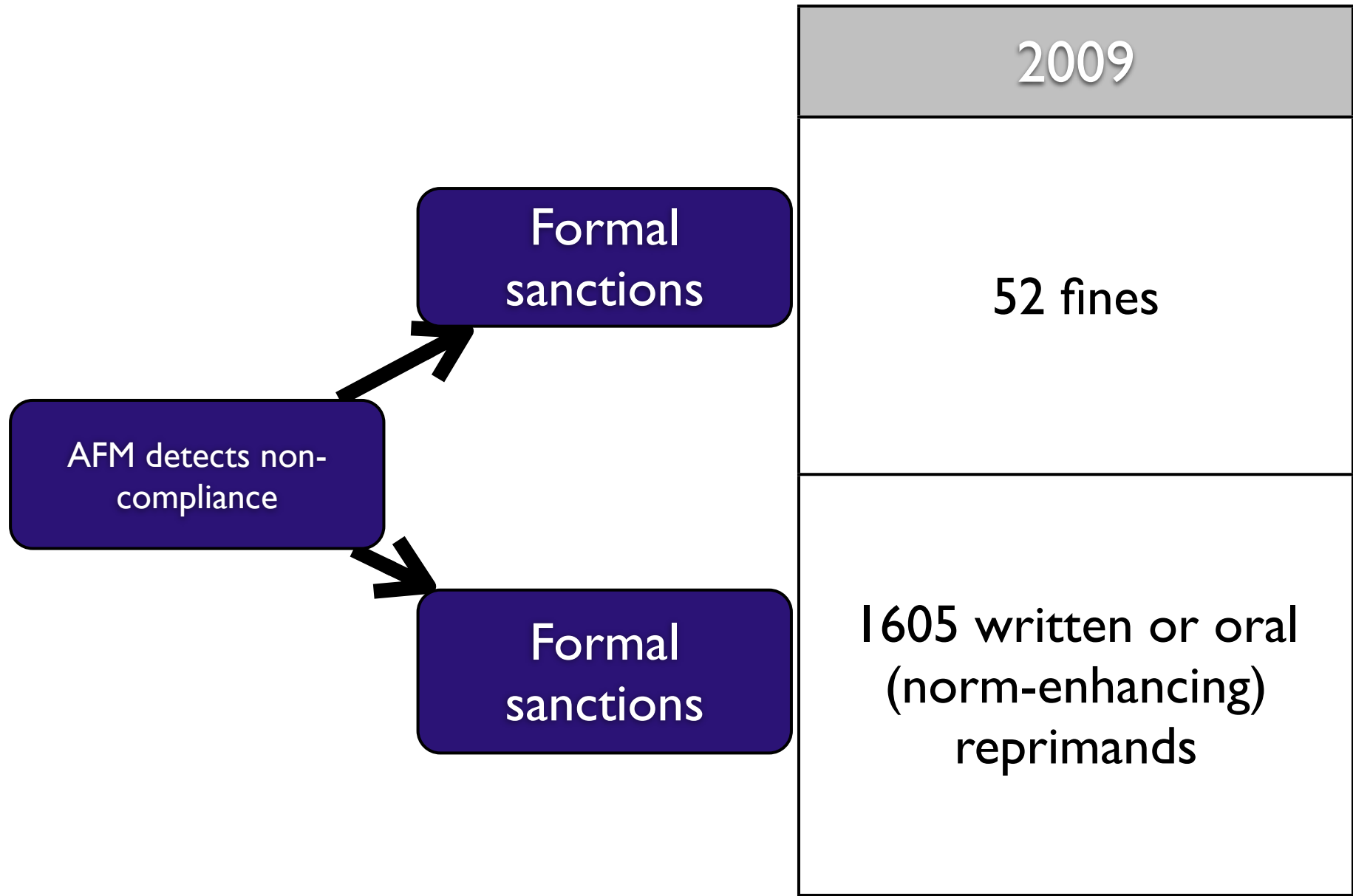


Experienced Securities Regulator

Enforcement

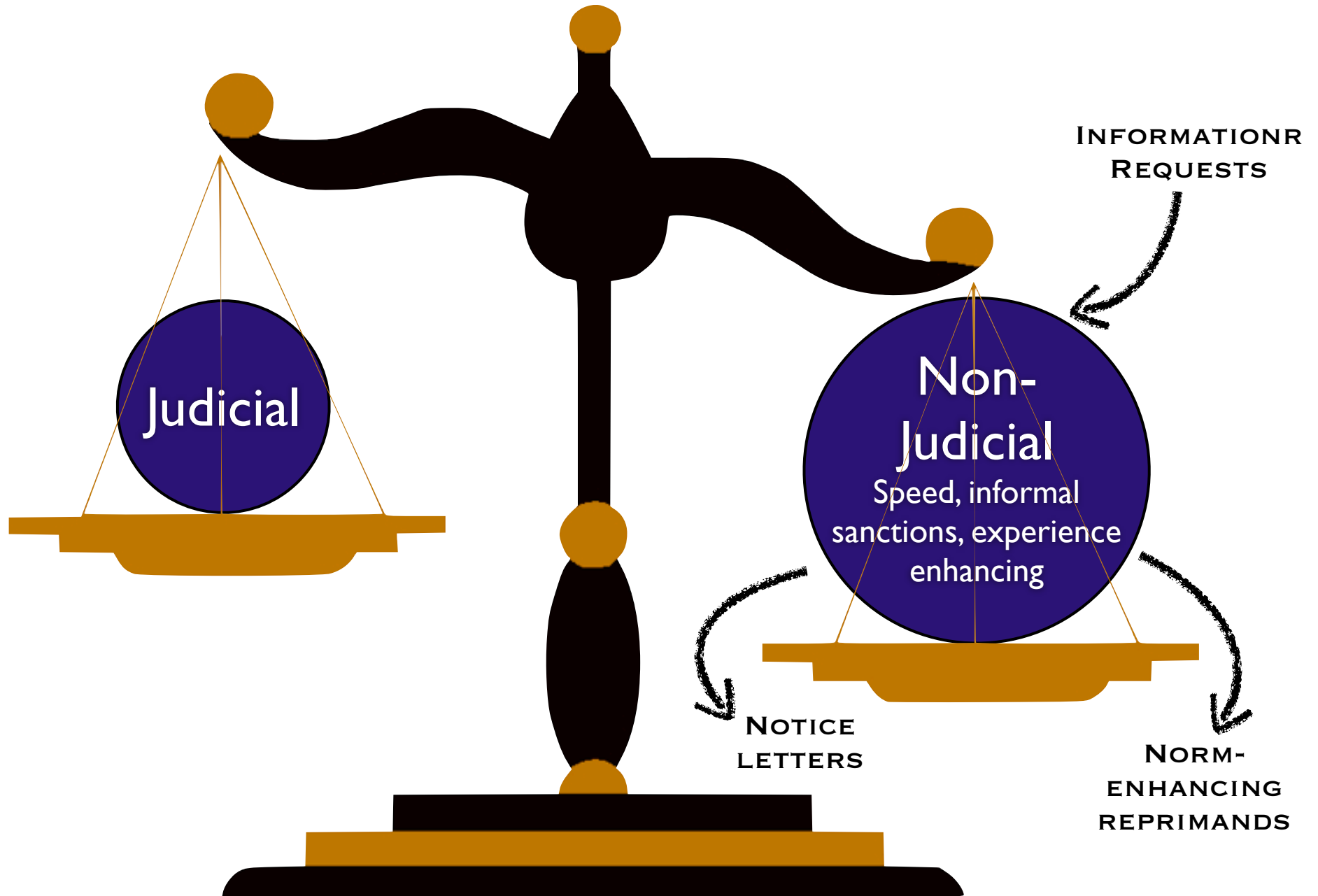
Enforcement





Source: www.afm.nl

Enforcement



Ecosystem

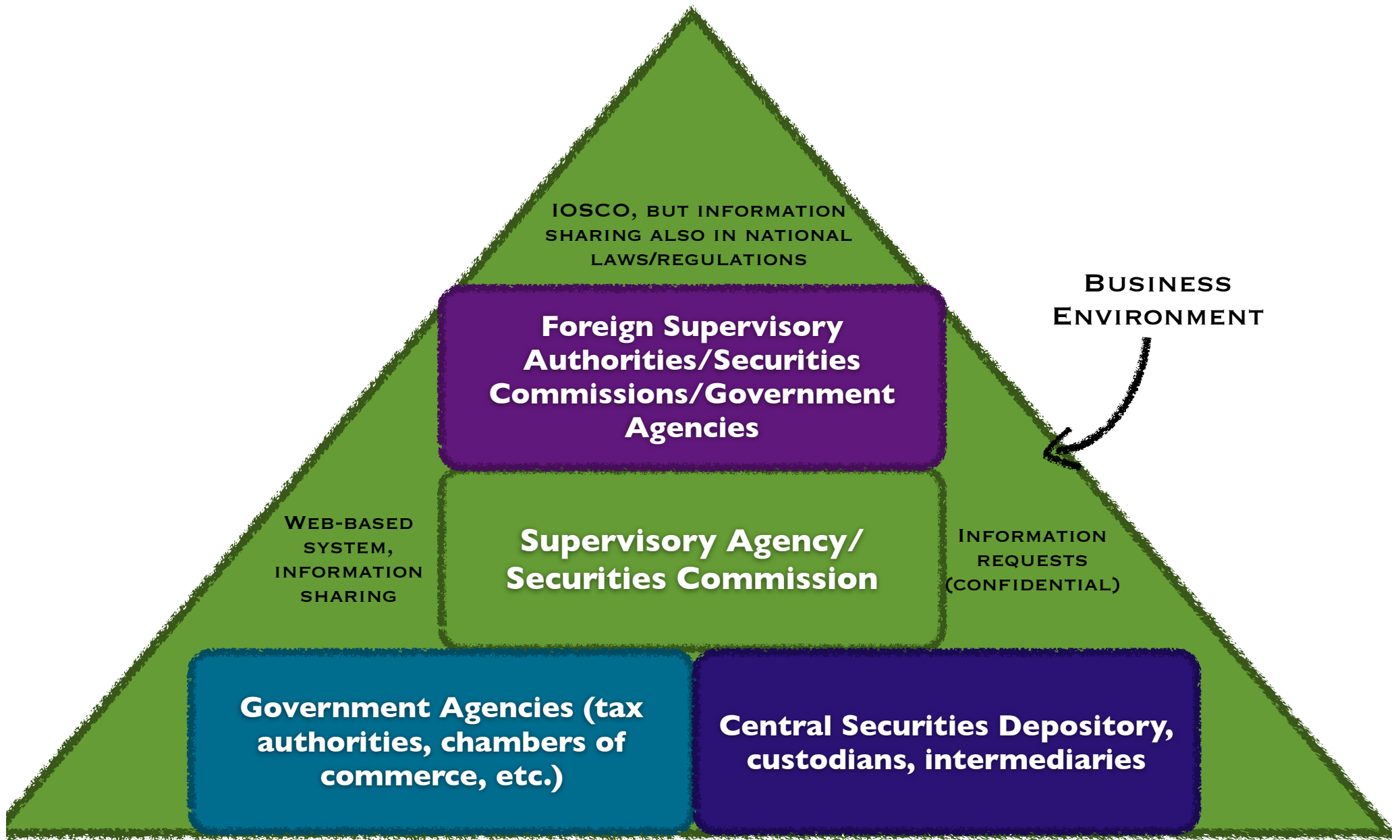
Information Ecosystem

**Foreign Supervisory
Authorities/Securities
Commissions/Government
Agencies**

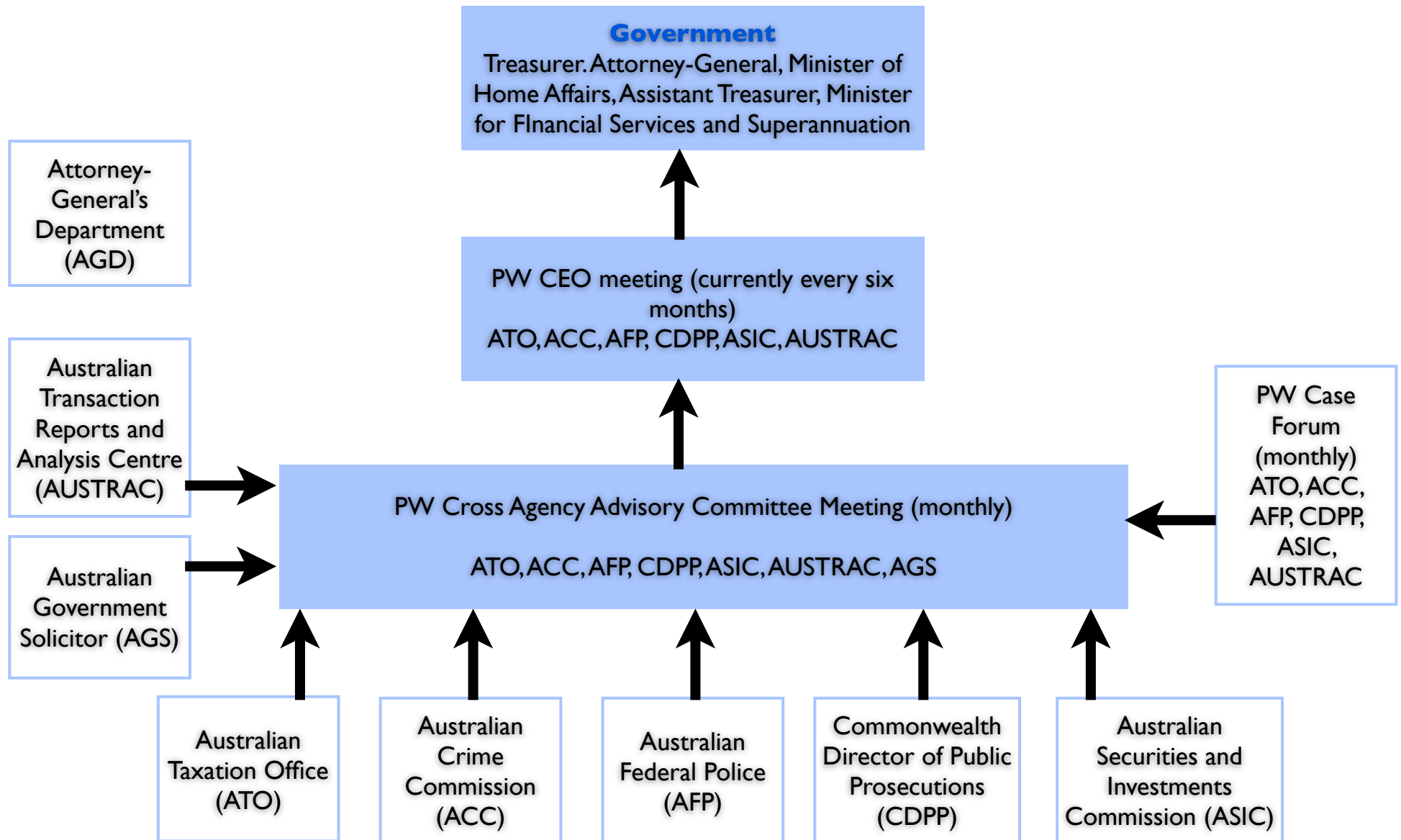
**Supervisory Agency/
Securities Commission**

**Government Agencies (tax
authorities, chambers of
commerce, etc.)**

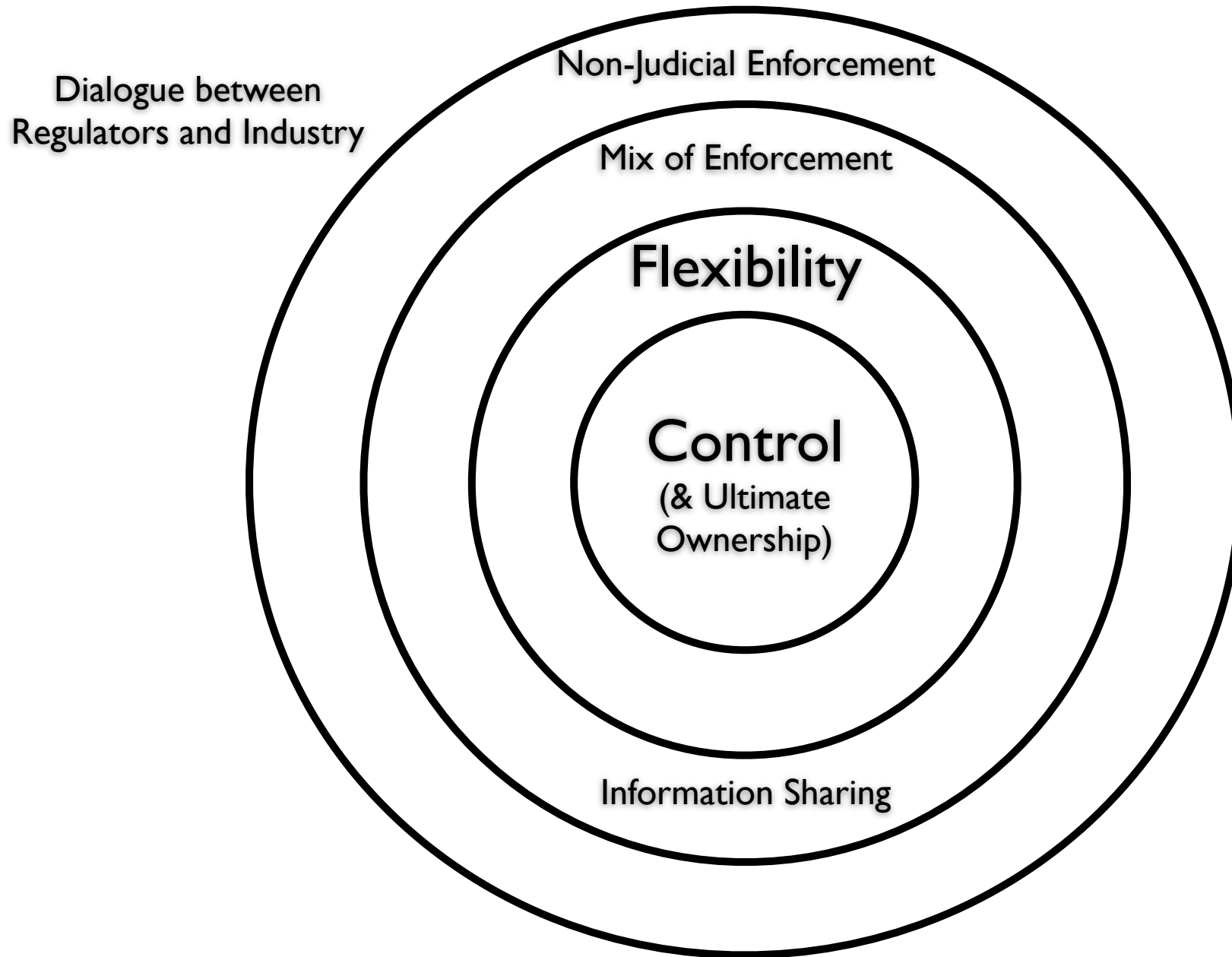
**Central Securities Depository,
custodians, intermediaries**



Project Wickenby



Conclusions





Thank you!

e.p.m.vermeulen@uvt.nl

