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Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

House of Lords – All Party Parliamentary Corporate Governance
Group

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My Lords, Ladies,
Honourable Members of Parliament,
Ladies and Gentlemen,

It is a pleasure for me to be here at the House of Lords with you today to talk about corporate governance issues.

I have been asked to say a few words by way of opening, in particular on my recent decision not to take any EU action on the issue of one-share-one-vote, and about what we are doing more generally on corporate governance in the Commission.

One-share-one-vote

My recent decision not to propose any EU measure on one-share-one-vote does not mean that I do not believe in one-share-one-vote any more. I continue to believe it is in the best interest of companies and their investors. However, I do not believe that EU action would be useful or fruitful.

Why did I reach this conclusion?

I opened the debate on one-share-one-vote shortly after I took office. Over the past few years the pros and cons have been fiercely debated. To inform the debate, the Commission contracted external consultants to do a study. The general consensus is that the study was balanced and that it shed some useful light on the issue. This study was the first systematic enquiry into the presence of control enhancing mechanisms across EU listed companies. It showed that even the UK permits some of these control enhancing mechanisms.

The study concluded that there is no clear economic evidence that control enhancing mechanisms have a negative effect on companies' performance or their governance.

I also listened carefully to all stakeholders in the debate. It is clear that this question goes to the heart of the matter as regards corporate control in the EU. It also raises very sensitive questions with regard to cultural differences, firmly rooted traditions and differences of approach as regards investment strategies.

There is some evidence that market pressure results in a gradual elimination of certain control enhancing mechanisms. Although a very wide-range of control-enhancing mechanisms are available in most Member States, their actual use in practice is more limited.

The driving force behind such market pressure is institutional investors. Institutional investors perceive control enhancing mechanisms negatively. However, what is important above all is an appropriate level of transparency. This is vital for investors to take reasoned and efficient investment decisions.

We already have at EU level a number of transparency measures which should help in this area. For example the Directive on Takeover Bids provides a list of relevant control enhancing mechanisms which have to be disclosed to the market by listed companies annually. The Transparency Directive improves disclosure rules on significant direct or indirect voting rights holdings in listed companies. The modifications of the Accounting directives in 2006 establish new rules on related-party transactions. Our new Directive on Shareholders' Rights will facilitate the exercise of shareholders' voting rights, including those of minorities and will help investors to push for transparency.

In consequence, I decided that an added layer of transparency at EU level was not the way to go. Especially, when in company law more generally we are trying to cut red-tape.

Most of the new rules I have mentioned could not yet exert their effects on the market. They have only recently been introduced, or are still being implemented in Member States. We have to wait and see whether they result in significant changes.

Now I know some of you may be disappointed with my decision not to propose any new measures on "one-share-one-vote". Whether or not you agree with my decision I hope you can agree with me that it is an example of better regulation. The term "better regulation" has been used *ad nauseam* and I am certainly not known for being a friend of slogans or buzzwords. What I actually mean here is that legislators should never propose new legislation when there is no compelling evidence that it is the appropriate way to deal with an issue. And on "one-share-one-vote" I looked at all the evidence very carefully, I listened to all views and then I made my decision based on facts rather than wishes. So I have told my staff they are to stop working on the subject.

Other matters

Let me now say a few words about other corporate governance issues we are dealing with at the moment and how we will proceed with evaluating the effects of some of our existing corporate governance measures.

For the moment, we are focussing on unfinished business. We are looking into the issue of whether we need a recommendation on Shareholders' rights to accompany the recently approved Shareholders' Rights Directive. We are also having a close look at the proper application of existing rules. One of the areas we are looking at in this context is the "acting in concert" rules in the Takeover Directive. I am concerned that some Member States are giving far too wide a reading on this concept, thereby preventing legitimate collaboration between shareholders.

Evaluation of the corporate governance recommendations and Directives

We are also evaluating Member States' application of the 2005 Commission Recommendations on independent directors and directors' remuneration. I believe this is another issue you want to discuss with me today and I would be very interested to hear your views.

We recently reported on how the two Recommendations are implemented in the Member States. The good news is that we see a strong tendency towards convergence in corporate governance standards across the EU. But standards are higher in certain Member States and the Commission is aware that there is still a lot of work to be done in a number of others.

Furthermore, at this stage we have only looked at what is on the books (i.e. in the corporate governance codes), but we do not know how the Recommendations work in practice – how companies apply them. This is highly relevant as they are based on the principle of "comply or explain".

This principle is, of course, the founding principle of corporate governance in the UK. It is very familiar here. However, it is a new concept in most Member States. At this stage, we do not know whether companies provide extensive, good-quality and reliable information for investors. Moreover, we do not yet have a clear idea of how Member states which are more used to following a regulatory approach will apply the principle.

It will, of course, take time for new institutions (i.e. independent directors in some Member States) and such a new mechanism to embed where they have never been used.

In 2008/2009, we will also be working on the evaluation of the Transparency Directive and we would start to work on the evaluation of the Takeover Bids Directive, due for 2011.

As regards the medium to longer term, the Commission is reflecting together with the Commission's group of high level advisors, the Corporate Governance Forum, on other appropriate priorities. I would be very interested to hear your views on that.

Conclusion

Our policy in this area will not change, we will tread very carefully: we will take action only if it is necessary and in the least interventionist way, where we can promote positive convergence on corporate governance amongst Member States.

I think I have said enough now and I look forward to the more interesting part of this meeting: Namely your views.