MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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CORRECTING MISTAKEN BELIEF

EMBRACE DUAL-CLASS SHARES

DEVANESAN EVANSON

THE revised 2023 Budget that was unveiled last Friday had some interesting proposals for the capital market.

Prime Minister Datuk Seri Anwar Ibrahim, who is also Finance Minister, said there were plans to allow the listing of dual-class shares (DCS) on Bursa Malaysia as part of efforts to encourage the listing of high-growth technology companies in Malaysia.

A dual-class share structure involves one company offering at least two classes of shares — one class with limited voting power is offered to the public while company executives and founders receive another class with significantly more voting power.

DCS are common in developed markets like the United States and United Kingdom. And closer to home, Hong Kong and Singapore, too, have them.

Malaysia does not have them, perhaps they are considered as taboo.

There is a mistaken belief among some that DCS are bad corporate governance as it goes against the "one share, one vote" principle. That is a simplistic approach.

Delving deeper into the rationale and need for dual-class shares can be convincing.

The single most important feature of the DCS structure is that it gives founders, entrepreneurs and key management executives the voting control of the listed entity, even if their equity interest is reduced to below a simple majority after rounds of fund raising.

Let us say that I am an entrepreneur and I have a vision for great things — an Elon Musk wannabe. But I need funds — lots of funds. In a typical initial public offering (IPO), I may end up with 10 per cent of the shares, with the rest being free float.

After the IPO, there is a risk that someone may end up with over 50 per cent and take control of the company.

This scenario will jeopardise my control over the company and I will not be able to fulfil my long-term vision through it.

I will think there is no point bothering with an IPO when there is a risk that I will lose control of the company and all my hard work will come to naught.

This is where the DCS help. It allows me with my minority interest to have leveraged voting power to maintain control of the company when it comes to key decisions. This way, I retain control of the company to fulfil my vision.

In certain cases, "supervoters" (usually the founders and key management) might receive 10 or even 50 votes for every ordinary share they own while ordinary shareholders will be entitled to one vote per share.

For instance, when Grab announced its plan to go public in Nasdaq via New York-listed SPAC Altimeter Growth Corp in April 2021, its filings revealed that Grab chief executive and co-founder Anthony Tan will have 60.4 per cent voting power post-listing despite owning just 2.2 per cent of the ordinary shares in the company.

Meanwhile, SoftBank Vision Fund, which owned 18.6 per cent of ordinary shares in Grab, commanded just 7.6 per cent of the voting power.

And Tan, by virtue of his majority voting power of 66 per cent (including his related entities) "will effectively have the ability to elect the entire GHL (Grab Holdings Ltd) board of directors".

Certainly, the high degree of control allows founders and entrepreneurs to run their companies as they wish. However, public shareholders may find it difficult to exercise their rights and hold management to account.

There is also the risk that company executives with their disproportionate voting power under the DCS structure, may not act in the best interest of all shareholders, resulting in corporate governance concerns and inadequate investor protection.

Is this unfair to the other shareholders? Perhaps not if they have been well informed of the structure and the implications of the DCS structure. They are then able to make informed decisions.

So those who believe in the entrepreneur's vision and capabilities will invest in the shares. Those who do not like the DCS structure need not invest. It is all about educating the investing fraternity.

Having said that, investors who choose not to invest in companies with DCS (usually tech companies) may lose out on the opportunity to benefit from the exciting growth of these companies.

The introduction of DCS will offer breadth when it comes to investment options. It also offers an avenue for visionary entrepreneurs to raise funds through the capital market without losing control of the company.

There is no need to fear DCS. Education should be the order of the day. It is all about the disclosure-based regime that we pride ourselves in.

Will entrepreneurs be beating down the exchange's doors for listings under the DCS structure?

That is not the point. The point is that an exchange should offer every opportunity possible for entrepreneurs to raise funds on its stock exchange. And the DCS option should be offered as a means of raising capital.

Securities Commission chairman Datuk Seri Awang Adek Hussin has stated that allowing DCS structures would also help high-growth, innovative companies to the Malaysian capital market, allowing investors access to more diversified investment opportunities.

DCS have their proponents and opponents. Perhaps the conundrum could be aptly summed up in the words of *Financial Times* columnist Andrew Hill: "The advantage of a dual-class share structure is that it protects entrepreneurial management from the demands of shareholders.

"The disadvantage of a dual-class share structure is that it protects entrepreneurial management from the demands of shareholders."

> *There is no need to fear DCS (dual-class shares). Education should be the order of the day. It is all about the disclosure-based regime that we pride ourselves in.*

The writer is chief executive officer of Minority Shareholders Watch Group.