

GUBERNA'S REACTION TO THE GREEN PAPER ON LONG-TERM FINANCING OF THE EUROPEAN ECONOMY

About GUBERNA

GUBERNA (Het Instituut voor Bestuurders/L'Institut des Administrateurs) encourages corporate governance in all its dimensions and for every type of organisation. At the same time the Institute wants to offer a platform for the exchange of experience, knowledge and best practices within its member network. Its ambition is to be at the intersection between two poles: upstream, applied academic research on governance from a multi-disciplinary approach and downstream, practical and entrepreneurial experience.

GUBERNA is recognized as the Belgian reference for the promotion of the principles of good governance. GUBERNA provides practical tools and services, based on own research, in order to inform, train and evaluate the proper functioning of governance bodies. As a knowledge centre, GUBERNA is closely involved in the development of the Belgian Corporate Governance Code for listed companies, the recommendations for non-listed companies (Code Buyse) as well as the recommendations for social profit organizations. The Institute is represented in the Committees that established the above-mentioned Codes. Moreover, GUBERNA actively promotes the development of a Code for State-Owned Enterprises.

Interest Representative Register ID number: 53403744095-09

General remarks

Being aware of the important impact the European policymakers have on our national governance recommendations and regulations, GUBERNA wants to take full advantage of the opportunity offered by the European commission to reflect on (the governance items included in) this Green Paper. Based on our broad research and the feedback from our member base, we hope to deliver a valuable input for the Commission's consultation. **This position-taking comes on top of our full support for the ecoDa reaction to which our organisation largely contributed.**

As a governance and director institute, **GUBERNA warmly welcomes the efforts undertaken by the European Commission** to launch a public consultation on its Green Paper on Long-term financing of the European economy. GUBERNA is convinced that there are indeed important hurdles for long-term financing. Moreover, the special attention paid to SMEs is extremely important.

In our opinion, **the shortage of long-term financing, especially for SMEs is due to quite a complex set of factors**, such as the post financial crisis trauma, the consecutive stricter regulation on banks (Basle III, CRDIV), insurance companies and pension funds (Solvency II) as well as on financial advice (MIFID). Moreover numerous studies (like the Kay Review and the Cox Report in the UK) revealed that the stock market is faced with several problems of short termism and lacks appeal for IPOs.

What are for GUBERNA the main points of attention to stimulate long-term financing?

As a governance and director institute, we want to focus our attention to those questions raised that are of the highest relevance to our member base and perfectly fit with our mission and expertise.

1. More trust in long-term stable shareholders (a.o. question 21)

Whereas the international capital market players and rating agencies have been mistrusting listed companies with ‘controlling’ or insider shareholders for years, the problems faced with short termism in some of the main markets (like the UK) have changed the attitude quite substantially. There circulates now quite **a number of interesting suggestions in the direction of stimulating long-term and stable shareholders**. GUBERNA hopes this new wave of thinking will bring about effective measures to stimulate to long-term stable shareholders at European as well as at Member State level. GUBERNA wants to offer its expertise on themes like Shareholder Governance to further stimulate the European as well as the Belgian debate. Given the huge variety in governance models, we do not need a one-size-fits-all approach, but we should opt for a tailored governance system that perfectly fits the substantially different challenges European shareholder models may pose. Our longitudinal research on governance practices at listed companies revealed that, even within a small Member State like Belgium, the role of shareholders is quite different in a Bel-20 versus a Bel-Mid or Bel-Small company.

At the same time we want to stress that we **need to develop a double approach**. At the one hand side, we need to deeply reflect on ways to stimulate long-term shareholding in an effective and nuanced way. At the other hand, we need to realise that a model with long-term stable shareholders, many of them being ‘insiders’, needs to be complemented with sufficient attention for the protection of minority shareholders. On this point, the Belgian experience can be useful to (re)position the debate in a more balanced perspective.

2. An in-depth reflection on the role of the stock exchange as a funding vehicle for growth companies (a.o. questions 12, 11, 6)

The numerous critical studies on the actual role of the stock exchange (like the OECD reports, the Walker Report, the Cox Report, the Kay Review) and the hurdles for SMEs to attract equity capital through IPOs have gained quite some attention. This Green Paper offers a good opportunity to further reflect on possible solutions to cure this problem. We certainly need to reflect further on the paradox between the actual business models of stock exchanges (mainly built on a trading model, anchored around velocity and liquidity) and the need for long-term stable shareholders.

In essence we are looking for a business model whereby the issuers, investors, brokers, etc. all are treated in a fair way. The market-making, corporate broker model in the UK deserves specific attention. Also developments, like the pan-European stock exchange for SMEs, deserve more support.

3. Specific focus on SMEs (a.o. questions 26 & 28)

Whereas former Green Papers on governance issues nearly exclusively focused on listed companies (and mainly large caps), this Green Paper devotes a great deal of attention to the long-term financing of SMEs. GUBERNA is convinced that specifically the barriers to entry for listing deserve special attention, such as less red tape (or hard regulation) and more flexibility (explaining deviations is not a minus point) or more mechanisms that allow a gradual opening-up of the company (a funding escalator, differentiated voting rights, ...).

Moreover, governments certainly have a role to play in stimulating sufficient long-term financing for SMEs. A special point of attention might be to further reflect on ratings for corporate bonds.

4. More attention for governance as a mechanism that facilitates growth and corporate funding (question 26)

As a governance institute we have experienced that good governance facilitates the development of SMEs, thanks to professionalization and external input as well as to a pro-active attention for a smooth transition and succession. Good governance decreases the risk profile and guarantees a better focus on the corporate interest, hereby improving the attractiveness for long-term financiers. A more pro-active and tailored development of governance within SMEs should deserve more recognition (and credit)!

5. A critical reflection on the cost-benefits of European regulation

It is remarkable and greatly appreciated by the GUBERNA members that the European Commission wants to reflect on 'calibrating' the regulatory approach. Acknowledging that rules might have unintended side effects is a step in the right direction. This does not only hold for financial regulation but should be enlarged to all governance rules.