NUS National University of Singapore

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# SGX should consider dual-class shares, says NUS professor

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FOR the Singapore Exchange (SGX) to attract initial public offerings (IPOs), it would have to convince more family firms – both from here and the region – to list.

And to do that, SGX should permit the use of dual-class shares or other shareholder rights plans that prevent a takeover, while ensuring that listed family-firms adhere to particular disclosure rules, said a professor from the NUS Business School on Monday.

Under such structures, two share classes are usually issued: one for the public, and the other for the founding family. Shares in the latter class have greater voting power.

"The number one thing to make the market much better here is to attract more IPOs. To attract more IPOs, the number one thing I would do is to allow dual-class shares," David Reeb, who is the Mr and Mrs Lin Jo Yan Professor in Banking and Finance at the university, told participants at a seminar.

Professor Reeb argued that on average, family firms – which are common in Asia – tend to be more resilient during a crisis. And studies that point to the lower returns from family firms with dual-class shares tend to miss the lower risk taken by such companies, he said.

"When you compare like-for-like, you'll find that dual-class shares really don't perform any differently from non-dual-class shares," said Professor Reeb.

"It's the most successful organisational form we have in the world, in terms of corporations. It's the most prominent one," he added, referring to family firms.

Yet, family firms would shy from the capital markets because they fear that control would be taken from them. As a result, they favour syndicated loans. And if they are listed, they do not float enough shares to create enough liquidity. Consequently, these companies also do not raise enough money to make massive changes needed to boost the fortunes of the business, he added.

"They say they are not fair. I agree," said Professor Reeb, referring to dual-class shares.

"But like first-class tickets, they are priced differently."

Still, family firms should be asked to provide additional safeguards for investors. For example, it could offer board observation rights, which would allow certain investors to attend board meetings, and receive the same information as board members, said Professor Reeb. He also pointed out that Singapore has a strong regulator that can seek out other forms of disclosures to prevent a large amount of information asymmetry.

A vibrant stock exchange would, in turn, attract more venture capitalists, he added, noting that such investors need an active capital market to exit from their stake in a company.