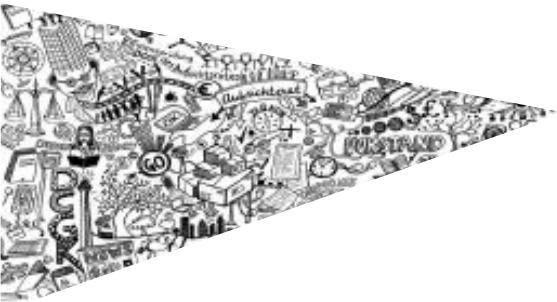


Related party transactions – what is it all about?

EY Governance Matters®

Wiesbaden, December 9, 2014

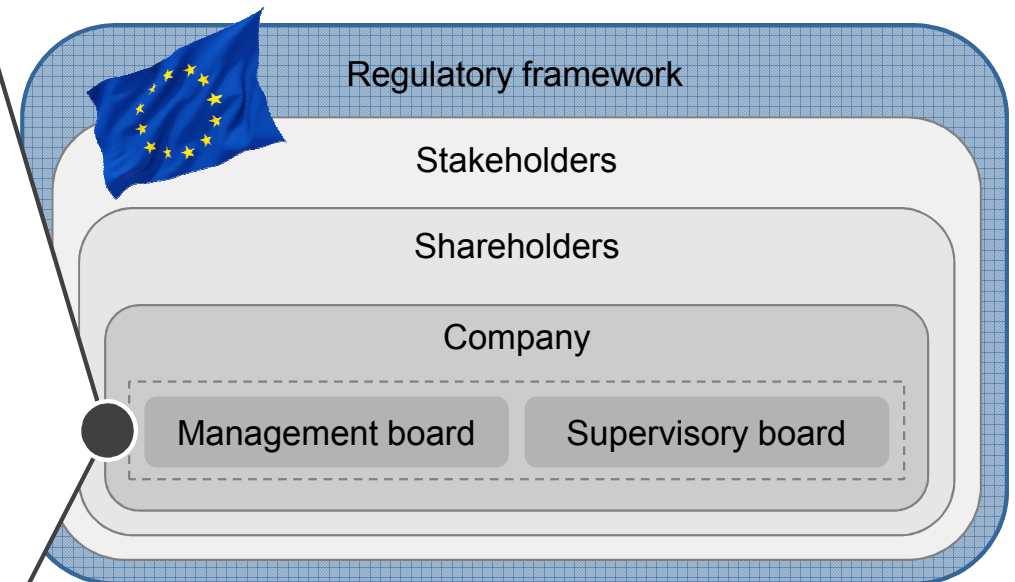


Building a better
working world

Why are we talking about it in the EU now?



European corporate governance framework



How does the global picture look like?

- ▶ RPTs quite common around the world
- ▶ Controlling RPTs key aspect of corporate law in many countries

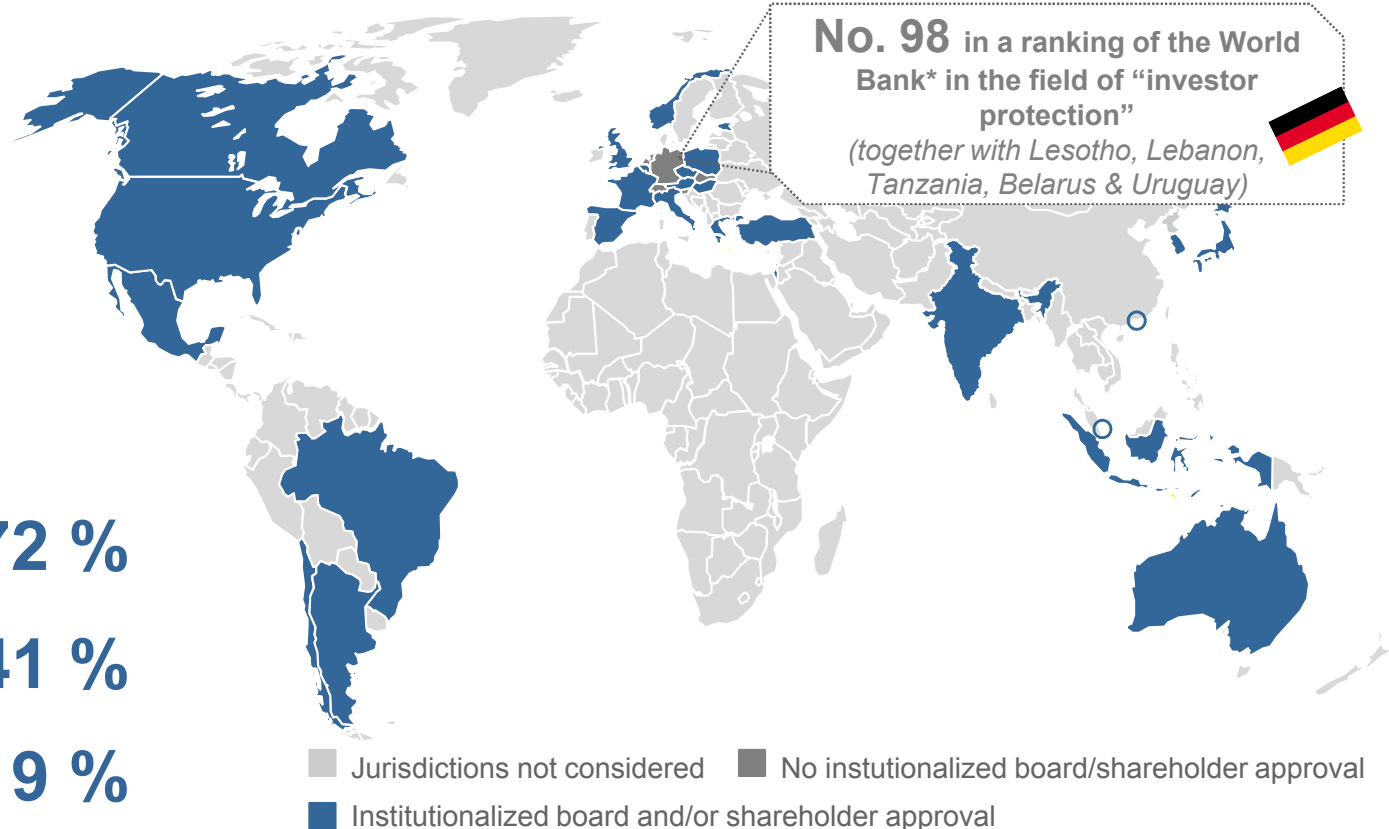
▶ Wide variability in legislation:

- RPTs seldom banned
- (Supervisory) board approval primary method
- Shareholder approval not as widespread
- Partially additional independent opinions

72 %

41 %

19 %



Source: OECD (2012), Related Party Transactions and Minority Shareholder Rights. *Doing Business 2014 <http://doingbusiness.org/rankings>

What appears on the EU horizon?



Proposal for amending the Shareholder Rights Directive*

NEW: Regulations for Related Party Transactions (RPT)

Article 9c EU-D rev. (Recital 19)

- ▶ **Listed companies**
- ▶ **Transactions with related persons/entities as defined in IAS**

RPTs > 1%
of the company's assets

RPTs > 5%
of the companies' assets or
significant impact on profits/ turnover



Disclosure & independent opinion



Shareholder approval

Companies about to face a large compliance burden and may find themselves unable to execute RPTs timely.

* COM (2014) 213 final, April, 9, 2014

What if the regulation passes?

” Good corporate governance cannot be legislated. “

Aswath Damodaran (2013)

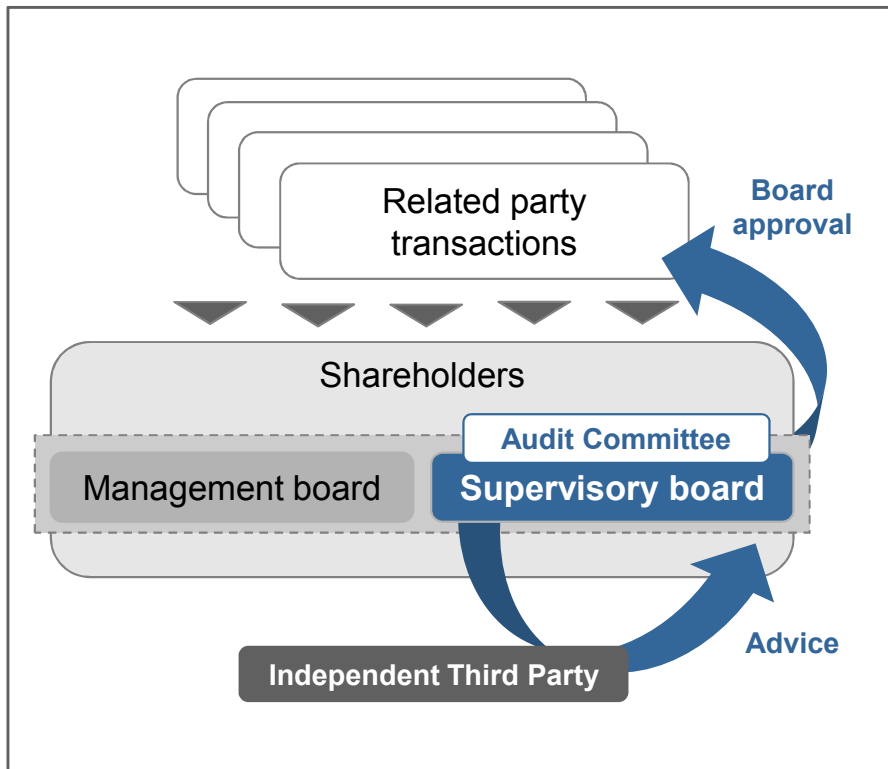
Professor of Finance at the Stern School of Business at New York University

Lack of flexibility & bureaucratic hurdles may forestall important deals (also in the interest of shareholders)

Boards need to monitor share ownership of their company & engage in proactive dialogue

Shareholders need to exercise their rights to safeguard investments

Wishful thinking ...



Principles of democratic governance & separation of powers:

- ▶ **Supervisory board as shareholder trustee**
(parliamentary democracy)
- ▶ **Stronger supervisory boards**
(extended approval catalogue)
- ▶ **Informed decisions**
(independent opinion/advice)

Shareholder rights are important – but they should be strengthened differently!

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