**CERF Fellowship Report**

**21st April 2020 – 12th August 2020**

**Overview**

My research over the last four months since becoming a CERF fellow has continued to centre around the use of dual-class stock by listed companies. It forms part of my broader research into boosting the growth of the British tech-industry. In particular, my work has focused on the propensity for dual-class stock to encourage further listings in the UK. Dual-class stock is a capital structure that enables founders to retain control through holding shares with disproportionately high voting rights, and issuing shares with lower voting rights, but equal cash-flow rights, to the public. Thereby, dual-class stock can allow a founder to divest of its investment in a company that he or she controls, and raise further equity funding on the public markets, while maintaining control.

Two specific themes have been investigated so far, as described in further detail below. The first relates to the UK’s tech-industry and evaluates the merits of relaxing the existing prohibition of dual-class stock from the premium-tier of the London Stock Exchange. The research assesses the benefits and costs to public shareholders of dual-class firms within the UK’s regulatory and market milieu. The second theme reviews the empirical history of dual-class firms in the US, where they have been permitted on the NYSE since the early 1990s (and on NASDAQ even longer), and where, in modern times, tech-companies have been adopting the structure in their droves. By assessing the existing empirical evidence in the US, a jurisdiction that resembles the UK’s equity market in many respects, lessons can be learnt as to how dual-class firms may perform in the UK, if they became more prevalent subsequent to a relaxation of the premium-tier prohibition. Progress on the two work-streams is outlined below.

**Finding the British Google: Relaxing the Prohibition of Dual-Class Stock From the Premium-Tier of the London Stock Exchange**

*Abstract: There is a dearth of British tech-companies listing on the London Stock Exchange (LSE), and the LSE lacks a large, innovative tech-company such as Google. The UK Government, concerned as to the loss of UK tech-companies to foreign acquirors, views the encouragement of UK tech-firm listings as a policy priority. Dual-class stock, currently prohibited from the LSE Main Market’s premium-tier, allows founders to list their firms, and retain majority-control, while holding significantly less of the cash-flow rights in the company. This article will broach the potential for dual-class stock to attract UK tech-company listings, and explore the benefits that dual-class stock can engender for UK tech-companies and their public shareholders. The risks of dual-class structures will also be discussed, but it will be shown that in a UK regulatory context, in relation to high-growth tech-companies, the risks may not be as severe as presumed, and easily moderated through judicious controls.*

Progress: I have published my research in the Cambridge Law Journal (B. Reddy, “Finding the British Google: Relaxing the Prohibition of Dual-Class Stock form the Premium-Tier of the London Stock Exchange” (2020) 79 CLJ 315). <<https://www.cambridge.org/core/journals/cambridge-law-journal/article/finding-the-british-google-relaxing-the-prohibition-of-dualclass-stock-from-the-premiumtier-of-the-london-stock-exchange/3D2E2F2CCFBF653D3151F7B2AC6E681F>>

I was due to present my research at the Max Planck Institute for Comparative and International Private Law PostDoc Conference in Hamburg, but it was postponed owing to the coronavirus situation. It has been rescheduled for April 2021.

**More Than Meets the Eye: Reassessing the Empirical Evidence on US Dual-Class Stock**

*Abstract: Some of the largest and most successful publicly traded companies, such as Alphabet and Facebook, have implemented a capital structure known as dual-class stock. Dual-class stock enables a company’s controller to retain voting control of a corporation while holding a disproportionately lower level of the corporation’s cash-flow rights. Dual-class stock has led a tortured life in the US, and is perhaps the most controversial area of corporate governance today. Between institutional investor derision and the exclusion or restriction of dual-class stock from certain indices, one may assume that dual-class structure must be harmful to outside stockholders. However, in this article, the existing empirical evidence on US dual-class stock will be reassessed by contrasting studies that use different measures of performance. It will be shown that although dual-class firms are generally valued less than similar one-share, one-vote firms, they perform as well as, and, in many cases, outperform, such firms from the perspective of operating performance and stock returns. When it comes to dual-class stock, more than meets the eye, and a presumption that dual-class stock is harmful for outside stockholders should not guide policy formulation.*

Progress: I have completed a working draft of this paper, available at: <<https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3554428>>

I am due to present this paper at the CERF in the City Conference in November 2020.

**Bobby V. Reddy, August 2020**