

On July 4, ecoDa launched its new initiative: The Corporate Governance Dialogue.

The kick-off meeting of The Corporate Governance Dialogue selected the Impact of Blockchain on Corporate Governance as its first topic of discussion.

The roundtable gathered an array of experts - including representatives of the European Commission and the EU Blockchain Observatory, ecoDa's Corporate Associates, academics, individual experts and peer organisations - for a broad discussion. The meeting was kindly hosted by AIG.

Irena Prijovic, ecoDa's Chair, welcomed the participants, and the discussion was led by Prof. Lutgart Van den Berghe, Leader of The Corporate Governance Dialogue.

The Corporate Governance Dialogue: What is it?

The Corporate Governance Dialogue has been established as an **open forum**, with input from both the business world and the academic community. Within the framework of the Dialogue, ecoDa will develop **flexible partnership formats** to nourish the reflection and to achieve the large scope of this project, making it a win-win for all involved parties.

The Corporate Governance Dialogue will reflect on the **future evolution of Corporate Governance**, the trends and challenges in the European and international CG context, and potential amendments to the CG framework in the coming years. The objective is to foster good governance that promotes economic welfare and well-being, by uniting theory with practice.

Given the scattered nature of the European CG landscape, setting some clear guidelines is of the utmost importance for the creation of a common market perspective. As part of its objectives, The Corporate Governance Dialogue will therefore consider how Corporate Governance can foster corporate decision-making in the interest of sustainable corporate success.

The CG Dialogue will address different topics which includes:

1. Should governance be redefined in an era of digitalisation, AI and block chain?
2. How to optimize the value-added CG can/should deliver to increase the competitiveness of the European economy?
3. Corporate Governance as an instrument to foster corporate decision-making in the interest of sustainable corporate success

At its kick-off meeting, The CG Dialogue addressed the first topic: Should governance be redefined in an era of digitalisation, AI and block chain?

Under this topic ecoDa plans to cover the following questions:

- There is worldwide attention for the disruptive forces of the digital society, but what could this mean for the traditional corporate governance framework and toolbox?
- Will the traditional organisation, with its hierarchical structure and typical decision-making framework of delegation, reporting and monitoring, still be the model of the future? What governance approach needs to be developed for a digital workforce in the knowledge society of tomorrow? Will the board of directors still exist in a world of Blockchain? Do smart contracts and AI mean the end of the agency problem? And what about corporate decision-making? Will Blockchain change the traditional governance recipes with checks and balances and mechanisms to cope with conflicts of interest?
- Will traditional governance recipes still be valid in a world with numerous new forms of collaboration, co-creation and open innovation? What new types of decision-making, checks and balances and mechanisms for managing conflicts of interest are to be developed for more fluid and volatile networks?
- How could the shareholders' meeting of the future look like? Do blockchain, smart contracts and AI induce the end of the agency problem? How could the dialogue and information streams between shareholders and issuers be promoted in a digital world? Will this lead to a redefinition of the stewardship role of institutional investors and to a disruption of proxy advisors?
- What could the stock exchange of the future look like in a digital world?



1. Summary Report of the first meeting: Blockchain technology and its impacts on shareholder dialogue

In our modern digital world, concepts like disruption, AI and Blockchain have gained lots of attention. These developments raise questions as to whether the current governance framework, developed for decision-making in boards and shareholder meetings, will or should be disrupted as well.

Prof. Christoph Van der Elst and Anne Lafarre initiated the debate by highlighting the main outcome of their joint article (2018 - “Blockchain Technology for Corporate Governance and Shareholder Activism”).

They both see blockchain as a technology that can offer smart solutions to traditional corporate governance inefficiencies, especially regarding the relationship between shareholders and the company. As blockchain technologies represent a novel approach to age-old problems of financial record-keeping, they may offer a new way of creating, exchanging, and tracking the ownership of financial assets.

“Blockchain as a technology that can offer smart solutions to traditional corporate governance inefficiencies”

Under the Shareholders’ Rights Directive (2017/828) it is specified that, “the personal data of shareholders should be processed to enable the company to identify its existing shareholders in order to communicate directly with them, with a view to facilitating the exercise of shareholders’ rights and shareholders’ engagement with the company. This is without prejudice to Member States law providing for processing of the personal data of shareholders for other purposes, such as to enable shareholders to cooperate with each other”.

In practice, although companies inform the market of shareholders’ changes, it takes too long for the financial services and market authority to disclose the information.

A permissioned ledger allows for a pre-selection of the participants, based on the satisfaction of certain requirements or approval by an administrator. A trusted intermediary will arrange for validation of the participants and the transactions. Shareholders cannot mislead the system: they cannot deny casting a vote and reversely the company cannot deny receiving it.

Blockchain therefore makes the information available straight away, which is the most reliable solution for shareholder voting and more timely shareholder information.

Prof. Christoph Van der Elst gave the example of the Delaware Blockchain initiative. In 2017, Delaware amended its Corporate Act to create the possibility of having all shareholder information stored on a distributed stock ledger.

In France, the “Loi Sapin II” already mentions distributed ledger technologies and allows the government to take action to facilitating the issuance and transmission of shares through such technologies. The Australian stock exchange plans to use a

system fueled by blockchain technology by 2020.

While some simple blockchain mechanisms that would facilitate share issue and share trading are already available - some stock exchanges have proposed using blockchain as a new method of trading corporate equities and tracking their ownership. Certain more complex applications still have to be spread and developed to ensure efficient share voting. Blockchain could also potentially strengthen shareholders' engagement.

The different level of engagement across shareholders is a given. Theoretically the traditional AGM plays an important role in collective shareholder monitoring with important functions (information, forum and decision-making). However, in practice the AGM is considered a dull mandatory, yearly ritual, suffering from procedural flaws in all of its main functions. According to surveys conducted by Prof. Christoph Van der Elst and Anne Lafarre, the participation degree (shareholder turnout rates) is rather low. Almost exclusively small individual shareholders are present in persona at general meetings. From the disclosure of minutes by Dutch companies, it appears that it is mostly small and individual shareholders who ask questions during meetings. Institutional investors take the lead in between the meetings; many important (outside) shareholders have limited needs for the AGM forum, since they have much more opportunities for timely and private discussions with boards and top management, outside of the AGM. In addition, voting often takes place before the General Meetings. Votes are uploaded in proxy advisor voting system and the results are known beforehand. This generates a different level-playing field among shareholders. On top of that, there are procedural flaws, because shares are usually held through complex chains of intermediaries. All these intermediaries add transaction costs to shareholder participation.

“AGM is considered a dull mandatory, yearly ritual, suffering from procedural flaws in all of its main functions”

“Blockchain could increase shareholder democracy”

According to Prof. Christoph Van der Elst and Anne Lafarre, blockchain could increase shareholder democracy, as it provides a common platform for all shareholders to engage in voting or asking questions

through the blockchain. General Meetings through blockchain could be organised more often than on a yearly basis. This way, AGMs would become modernized corporate organs.

Prof. Christoph Van der Elst and Anne Lafarre concluded their presentation by summarizing the advantages of blockchain:

- in terms of shareholder and corporate information: Blockchain gets rid of scattered ledgers and long delays;
- in terms of chains of intermediaries and remote voting: Blockchain adds transparency, security and verification('feedback');
- in terms of shareholder voting transaction costs and 'shareholder democracy': Blockchain offers cheap and fast decision-making in a harmonized way.

The Corporate Governance Dialogue was enriched with a practical testimony made by Marnix Driesse and Menno Wielhouwer from Kas Bank (NL).



KAS BANK is a Dutch custodian, offering services to institutional investors, including administration, clearing and settlement of investment transactions. It is a neutral party, not being investors themselves. By innovating, KAS Bank wants to develop new customer-oriented products that can provide new turnover. They have developed a KAS Lab: a platform where all employees

can submit new ideas for new developments.

KAS Bank has developed a prototype blockchain technology for shareholder proxy voting services (making voting safer, faster and more transparent). The current system uses banking infrastructure to send each other simple information. A permissioner confirms individuals' ID and bank account (authentication of shareholders and authorised proxies). Any reliable engagement and voting needs reconciliation with the share register. Only shareholders that own shares at the moment a certain decision needs to be taken have access to the platform. All votes are then stored in vote rooms (counting and reporting of voting results).

This system, just like the system developed by Broadridge - with the blockchain producing a shadow digital register of the proxy voting taking place in the traditional model - questions the need for intermediaries and proxy advisors. The blockchain can include all shareholders in a discussion platform where explanations can be provided together with casted votes. By offering an option to give explanations, the system should enhance shareholders' engagement and companies could adapt easier their policies.

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Contrary to Santander, KAS Bank has preferred to start small with an offer limited to investments in Dutch listed companies and to not opt for developing one single solution for all EU markets, given the different legal frameworks.

The presentations were followed by a discussion where participants highlighted the following points:

- Role of boards in promoting innovation: Governing innovation is almost a contradiction in itself. Governing means controlling and directing, whereas innovation needs to be able to roam freely in order to manifest itself.
- Innovation and management: Companies do not have the right KPIs in terms of remuneration to promote innovation. The European Commission could strengthen this aspect while developing its guidelines for the presentation of remuneration reports.
- Towards further EU harmonization: Harmonization of the shareholders' concept and having a common record date among Member States' jurisdictions would be a prerequisite for further developments of blockchain technology.

Next steps?

You are a young entrepreneur developing new technologies that can solve inefficiencies of the agency model, an academic, or a profit organisation interested by those topics and you wish to join the debate?

Please contact us: contact@ecoDa.org



Participants' List:

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- **BINDELLE Florence,** Secretary General, EuropeanIssuers
- **DEFOURNY Michel,** Group Corporate Secretary, Solvay
- **DE GREEF, David,** AIG
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- **de WILDE Annelies,** Senior Research Associate, Guberna
- **DRIESSE Marnix,** Trainee Innovation, KAS Bank
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- **VERBEECK Egied,** General Counsel, Euronav
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ecoDa full members:

- The British “Institute of Directors” (IoD)
- The Belgian “GUBERNA”
- The French “IFA”
- The Luxembourg “ILA”
- “Directors’ Institute Finland”
- The Spanish institute “Instituto de Consejeros – Administradores”
- The “Slovenian Directors’ Association”
- The Dutch “Nederlandse vereniging van Commissarissen en Directeuren”
- The Italian Directors’ Association, “Nedcommunity”
- The “Polish Institute of Directors”
- The “Norwegian Institute of Directors”
- The Swedish “StyrelseAkademien”
- “Vereinigung der Aufsichtsräte in Deutschland” e.V., VARD
- The Portuguese “Forum de Administradores Empresas »
- The Baltic Institute of Corporate Governance
- The Swiss Institute of Directors
- The Romanian Independent Directors Association

ecoDa affiliated members (national institutes of directors):

- The “Croatian Institute of Directors”
- The “Macedonian Institute of Directors”, MIoD
- “Corporate Governance Institute Albania” (CGIA)

Corporate Associates (national institutes of directors):

- The “Danish Board Network”

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