Discussion Paper No. 08-110

Blockholdings and Corporate Governance in the EU Banking Sector

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ZEW

Zentrum für Europäische Wirtschaftsforschung GmbH

Centre for European Economic Research

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Non-Technical Summary

Ownership structures widely differ across the EU. While large blockholdings dominate in the banking sector in Continental Europe, ownership is widely dispersed in the United Kingdom. These differences have consequences for corporate governance in the EU banking sector. This paper analyzes the efficiency of shareholder control and hostile takeovers as corporate governance mechanisms in the EU banking sector against the background of the regulatory environment and differences in the ownership structure of banks. Particular attention is put on current trends in the ownership structure of banks (e. g. sovereign wealth funds). The paper is based on a new dataset on shareholdings in listed banks in the EU banking sector. The results indicate that EU regulations have not always improved corporate governance in the banking sector. While shareholder control has been improved by a better protection of minority shareholder rights, the efficiency of the takeover market has been reduced in Continental Europe.

Das Wichtigste in Kürze

Die Eigentümerstrukturen unterscheiden sich deutlich in der EU. Während im Bankensektor in Kontinentaleuropa die Eigentümerstrukturen gewöhnlich stark konzentriert sind und von einem einzelnen Großaktionär dominiert werden, gibt es in Großbritannien eine Vielzahl kleinerer Aktionäre. Diese Unterschiede in der Eigentümerstruktur haben Auswirkungen auf die Corporate Governance im EU Bankensektor. Die vorliegende Studie analysiert die Wirksamkeit von Aktionären und feindlichen Übernahmen als Corporate Governance Mechanismus vor dem Hintergrund der rechtlichen und regulatorischen Rahmenbedingungen in der EU und den Unterschieden in den Eigentümerstrukturen von Banken. Besondere Aufmerksamkeit liegt auf gegenwärtigen Trends in der Eigentümerstruktur von Banken (z.B. ausländische Staatsfonds). Die Studie basiert auf einem neuen Datensatz zu Eigentümeranteilen an börsennotierten Banken im EU Bankensektor. Die Ergebnisse deuten darauf hin, dass EU Regulierungen nicht immer die Corporate Governance im Bankensektor verbessert haben. Während die Aktionärskontrolle durch den stärkeren Schutz der Rechte von Minderheitsaktionären verbessert werden konnte, ist die Effizienz feindlicher Übernahmen als Corporate Governance Mechanismus in Kontinentaleurope gesunken.

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Abstract:

Ownership structures widely differ across the EU. While large blockholdings dominate in the banking sector in Continental Europe, ownership is widely dispersed in the United Kingdom. These differences have consequences for corporate governance in the EU banking sector. This paper analyzes the efficiency of shareholder control and hostile takeovers as corporate governance mechanisms in the EU banking sector against the background of the regulatory environment and differences in the ownership structure of banks. Particular attention is put on current trends in the ownership structure of banks (e. g. sovereign wealth funds). The paper is based on a new dataset on shareholdings in listed banks in the EU banking sector. The results indicate that EU regulations have not always improved corporate governance in the banking sector. While shareholder control has been improved by a better protection of minority shareholder rights, the efficiency of the takeover market has been reduced in Continental Europe.

Keywords: Banks, blockholdings, corporate governance, hostile takeovers, takeover directive

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1 Introduction

Ownership structures widely differ across the EU. While large blockholdings dominate in the banking sector in Continental Europe, ownership is widely dispersed in the United Kingdom. These differences have consequences for corporate governance in the EU banking sector. In the United Kingdom, minority shareholders are more likely to be expropriated by the management as a result of the dispersed ownership structure. In Continental Europe, ownership is usually concentrated and agency problems arise between minority shareholders and large blockholders. Corporate governance deals with these problems. The recent bank failures in the United States and in Europe (e.g. Lehman Brothers in the United States, HBOS in the United Kingdom, Fortis in Belgium and IKB in Germany) have led to a renewed interest in the research on this issue.

The aim of this paper is to analyze the existing corporate governance structures in the EU banking sector against the background of the regulatory environment and differences in the ownership structure of banks. It is based on a new dataset on shareholdings in listed banks in the EU. The remainder of this paper is organized as follows. Section 2 reviews the principal agent problem and identifies shareholder control and hostile takeovers as important corporate governance mechanisms. Since the nature of the principal-agent problem depends on the ownership structure of banks, Section 3 presents descriptive statistics on ownership structures in the EU banking sector. Based on the findings in this section, Section 4 analyzes the impact of EU corporate governance regulations on shareholder control and hostile takeovers. Section 5 presents the main trends in ownership structure in the banking sector that might affect corporate governance in future (e. g. sovereign wealth funds). Section 6 concludes. The results indicate that regulations have not always improved corporate governance in the EU banking sector. While shareholder control has been improved by a better protection of minority shareholder rights, the efficiency of the takeover market has been reduced in Continental Europe. The main reason is that regulations on corporate governance fail to take account of differences in the ownership structures of banks across Continental Europe and the United Kingdom.

2 Ownership Structure and Corporate Governance

Corporate governance deals with principal-agent problems between managers and shareholders. Such problems arise because managers (agent) and shareholders (principal) have the incentive to maximize their personal utility (Jensen and Meckling, 1976). Since contracts cannot completely specify *a priori* what the manager has to do with the money and how the returns are divided between him and the shareholders, the manager has considerable scope to

increase his utility to the detriment of the shareholder (Shleifer and Vishny, 1987). The shareholder can limit this by monitoring the management. However, given the information asymmetries between the management and the shareholders, each shareholder has to incur monitoring costs. For this reason, every shareholder will free-ride in the hope that other shareholders will do the monitoring (Jensen and Meckling, 1976). This leaves the management with considerable discretion to divert corporate resources for their private benefits (Jensen and Meckling, 1976).

The corporate governance literature discusses different mechanisms to stop managers from increasing their utility. The most direct way to align the interest of the management and the shareholders is to concentrate shareholdings in the hands of one or more large blockholders. Blockholders have more voting rights and larger incentives to monitor the management than minority shareholders (Shleifer and Vishny, 1986). Ownership concentration might, however, come with some costs. The reason is that large shareholders represent their own interests which not need to coincide with the interests of the minority shareholders (Shleifer and Vishny, 1997). As managers in the case of dispersed ownership, large shareholders have the incentive to extract private benefits that do not have to be shared with the other shareholders. It follows that concentrated ownership might reduce the principal-agent problem between the management and minority shareholders, but might create an agency problem between large and minority shareholders.

Strong shareholder rights are one method to improve corporate governance. Another is to remove takeover defences and to improve the rights of the shareholders to sell their shares on the takeover market. Manne (1965) argues that the takeover market increases the power and the protection of shareholders. The reason is that the extraction of private benefits should lead to lower firm performance which should be reflected by a lower share price. The lower share price makes a firm more attractive for hostile takeovers (Manne, 1965). In a hostile takeover, a bidder makes a tender offer for the shares of the target firm. He, hence, deals directly with the shareholder of the target rather than with its management. After he has taken over an ownership stake that is large enough to assume control, the bidder removes the management against their will. Since the incumbent managers want to keep their jobs, they have larger incentives to manage the company in the interest of the shareholders if the probability of a hostile takeover is high.

Active monitoring and hostile takeovers are two mechanisms that assure shareholders of getting a return on their investment. They belong to a set of corporate governance mechanisms. Such mechanisms can be seen as a device for making decisions that cannot be specified in the contract between the management and the shareholders owing to the incompleteness of contracts

(Hart, 1995). Other corporate governance mechanisms are large debt holders, incentive contracts and the implementation of a board of directors that controls the management in the interest of the minority shareholders. The latter mechanisms are not covered by this study. For a survey see Shleifer and Vishny (1997).

To summarize, depending on the ownership structure principal-agent problems differ. In case of dispersed ownership, agency problems exist between the management and the minority shareholders. In case of concentrated ownership, they arise between the blockholder and the minority shareholders. These agency problems are more severe in the banking sector than in the non-financial sector. The reason is that information asymmetries are larger in the banking sector than in the non-financial sector (Levine, 2003). This makes monitoring more difficult and increases the free-riding problem, since minority shareholders have to incur larger monitoring costs to overcome their informational disadvantage. It follows that owing to the large information asymmetries bank managers have more scope to divert corporate resources for private benefits. Bank regulations further aggravate agency problems in the banking sector. The existence of deposit insurance, for example, increases the incentive of shareholders to engage in excessive risk-taking (Prowse, 1995; Macey and O'Hara, 2003). The problem is further aggravated by the fact that deposit insurance removes any incentive that insured depositors have to monitor the management because their funds are protected regardless of the outcomes of the investment strategies the bank selects (Macey and O'Hara, 2003). This means that deposit insurance increases both the incentive of shareholders and their ability to take on excessive risks (Levine, 2003).

Although agency problems are more severe in the banking sector, the literature on corporate governance usually focuses on the non-financial sector.[1] The aim of this paper is to fill this gap and to analyze the existing corporate governance structures in the EU banking sector against the background of the regulatory environment and differences in the ownership structure of banks. Corporate governance seems to be particularly relevant in the moment, since the ongoing crisis on the international financial markets has led to the failure of several banks and has considerably reduced bank valuations and shareholder value across the globe. Corporate governance issues are, however, not only relevant for bank shareholders. Owing to the importance of banks in mobilizing and allocating funds and risks, corporate governance in the banking sector is an important determinant for economic growth (Levine, 1997 and 2005; Claessens,

[1] A large part of this literature has been contributed by the *European Corporate Governance Network*. Becht and Röell (1999) provide a summary of the main findings of this network. For individual country studies see Becht and Böhmer (1999), Becht et al. (1999), Bianchi et al. (1999), Bloch and Kremp (1999), Crespí-Cladera and Garcia-Cestona (1999), De Jong et al. (1999), Goergen and Renneborg (1999) and Gugler et al. (1999).

2006). Since corporate governance deals with principal-agent problems, the next section presents descriptive statistics on the ownership and control structures in the EU banking sector. The aim of this section is to find out if agency problems between minority shareholders and bank managers are more severe than between minority shareholders and large blockholders and *vice versa*. Based on the findings in this section, Section 4 analyzes the impact of regulations that aim at improving shareholder control and facilitating hostile takeovers on corporate governance in the EU banking sector. Section 5 presents some trends in the ownership structure of banks that will likely affect corporate governance in the future. Section 6 concludes.

3 Data

The study is based on a new dataset on the ownership structure of listed banks in the EU banking sector. Information on bank shareholdings comes from the 2008 *BankScope* database of *Bureau van Dijk*. The dataset includes 178 listed banks from France (40), Germany (36), Italy (35), Spain (14) and the United Kingdom (53). A list of the banks included in the sample is provided in Table 1. The distribution of banks by country is shown in Table 2 and according to bank type in Table 3. All tables are reported in the *Appendix*. The dataset includes commercial banks (62), bank holding companies (17), cooperative banks (23), investment banks (27), Islamic banks (1), medium and long term credit banks (4), non-banking credit institution (39), as well as real estate and mortgage banks (5).

The distribution of shareholdings is presented in Table 2 and 3. The United Kingdom records 2.558 shareholdings in listed banks in 2008. This is considerably larger than in France (487), Germany (491), Italy (927) and Spain (927) and indicates that ownership is more dispersed in the United Kingdom than in Continental Europe. This is also reflected by the average number of shareholdings per bank. The United Kingdom records 48.26 shareholdings per bank. This is lower than in Spain where 56.29 shareholdings per bank are reported, but still considerably larger than in France (12.18), Italy (26.49) and Germany (13.64). A detailed presentation of the number of shareholdings per bank is provided in Table 1.

3.1 Ownership Concentration

Ownership concentration is usually measured by the size of the largest blockholding (Becht and Röell, 1999 and other studies of the *European Corporate Governance Network*). The largest blockholding is defined as the largest direct or indirect stake that an individual shareholder or group of shareholders has. Table 4 shows descriptive statistics for the largest blockholding in EU banks. Since some banks have more than one largest

blockholder, the number of largest blockholdings is larger than the number of banks in the sample. Table 4 indicates significant differences in ownership structures between the United Kingdom and Continental Europe. While the median largest blockholding is 11.09 percent in the United Kingdom, it is 47.23 percent in Continental Europe. This means that in France, Germany, Italy and Spain every second bank is dominated by a blockholder that has almost outright control. In the United Kingdom, ownership is much less concentrated and the largest blockholder needs the second, third and fourth largest shareholder to have at least a blocking minority of 25 percent. These differences in ownership structure have implications for the corporate governance of banks. In Continental Europe, owing to the high degree of ownership concentration principal-agent problems between the blockholder and the minority shareholders should be more severe than between the management and minority shareholders. The opposite is the case in the United Kingdom. British banks are controlled by the management, since the largest blockholder alone cannot control the bank. He must form a coalition with other large investors to have at least a blocking minority. This suggests that in the United Kingdom agency problems between the management and the minority shareholders are more severe than between large blockholders and minority shareholders. The same differences in ownership structure have been found for the non-financial sector in Europe (Becht and Röell, 1999).

Table 4: Largest blockholding

Continental Europe	**Obs.**	**Mean**	**Median**	**Std. Dev.**
Largest voting block	133	45.62	47.23	29.08
2nd largest voting block	125	15.62	10.00	17.60
3rd largest voting block	115	7.33	5.10	8.55
4th largest voting block	108	4.39	3.01	4.43
5th largest voting block	99	3.18	2.29	3.36
United Kingdom	**Obs.**	**Mean**	**Median**	**Std. Dev.**
Largest voting block	59	14.03	11.09	11.45
2nd largest voting block	52	9.89	7.80	6.44
3rd largest voting block	54	7.56	5.85	4.09
4th largest voting block	50	6.18	5.08	3.19
5th largest voting block	57	4.49	4.70	2.71

Source: Bankscope (2008). Note: Continental Europe includes France, Germany, Italy and Spain.

Table 5 reports the relative importance of nine categories of blockholders. Measured by the number of largest blockholdings banks are the most important blockholder on the European continent. They have a median largest blockholding of 63.52 percent. The second most important category of shareholders are industrial companies. The median size of their blockholding is 40.45 percent. In the United Kingdom, financial & insurance companies are the most important category of shareholders. They have a median largest

blockholding of 10.75 percent. Mutual & pension funds are the second most important category of shareholders. The median size of their largest blockholding is 16.36 percent. Continental Europe and the United Kingdom, hence, not only differ in terms of ownership concentration, but also in terms of the type of the largest blockholder. On the European continent, banks are the most important blockholder. This might be desirable because they might be better able to monitor and control other banks than other investors owing to their knowledge about the business. Moreover, banks often receive proxy votes from the shareholders who have deposited shares in the bank. This should further increase the control rights of banks. However, since the amount of debt held by the monitoring bank exceeds the amount of equity held in the controlled bank, credit institutions have little incentive to act on behalf of the minority shareholders (Goergen and Renneborg, 2003). Baums and Fraune (1995), furthermore, find that banks virtually always vote in favour of the management proposals on the general meeting. Large blockholdings of banks in other banks, hence, need not necessarily improve monitoring and control to the benefit of minority shareholders. This might also be the case for industrial companies. If industrial firms are the largest blockholder, they might exploit their control power to obtain cheap funds.

Table 5: Largest blockholding by type of shareholder

Continental Europe	**Obs.**	**Mean**	**Median**	**Std. Dev.**
Bank	56	55.06	63.52	31.33
Financial & Insurance Companies	16	42.36	52.05	26.07
Employees/Managers, Self-Owned	1	11.56	11.56	.
Individual(s) or family(ies)	13	35.59	40.15	22.15
Industrial Companies	28	43.10	40.45	25.21
State, Public authority	1	92.73	92.73	.
Foundation/Research Institute	5	28.88	41. 01	23.71
Mutual & Pension fund/Trust/Nominee	7	8.40	9.31	7.69
Other	6	54.92	55.00	6.06
United Kingdom	**Obs.**	**Mean**	**Median**	**Std. Dev.**
Bank	7	10.71	9.89	6.16
Financial & Insurance Companies	21	10.39	10.75	4.99
Employees/Managers, Self-Owned	1	14.53	14.53	.
Individual(s) or family(ies)	9	14.80	17.12	17.26
Industrial Companies	9	17.81	14.42	12.05
State, Public authority	-	-	-	-
Foundation/Research Institute	-	-	-	-
Mutual & Pension fund/Trust/Nominee	12	18.09	16.36	15.26
Other	-	-	-	-

Source: Bankscope (2008). Note: Continental Europe includes France, Germany, Italy and Spain.

In the United Kingdom, financial & insurance companies and mutual & pension funds are the most important blockholder. Pension or mutual funds managers

might be the better monitor than banks and financial & insurance companies, since fund managers are less likely to be entrenched than shareholders that have close business links with the bank they own. Institutional investors are also active monitors (see Section 5). The problem with fund managers, however, is that they do not have a direct stake in the bank and, hence, face lower incentives to monitor the management. Institutional ownership might, furthermore, sometimes bring too much short-sightedness to the bank, since institutional investors want the highest return from the company to retain their shareholders. This suggests that the principal-agent problems between managers and minority shareholders that arise in the United Kingdom owing to the dispersed ownership structure of banks might at least partly be reduced by the monitoring and control activities of mutual & pension funds. In Continental Europe, in contrast, agency problems between the largest blockholder and the minority shareholders might be more severe as a result of potential business links between the blockholder and the bank he controls. These problems might alleviated by the increasing importance of institutional investors in Continental Europe and the United Kingdom (see also Section 5).

3.2 Ownership Structures

A more detailed look at the ownership structure in the EU banking sector gives Figure 1. Figure 1 shows the distribution of the largest blockholdings in Continental Europe and the United Kingdom. The quantile plots confirm our previous conclusions regarding the ownership structure of banks in Continental Europe and the United Kingdom. In Continental Europe, ownership in the banking sector is concentrated and the largest blockholder has at least a simple majority in every second bank.[2] In the United Kingdom, in contrast, ownership is widely dispersed with the blockholder usually having a stake of less than 25 percent.

Figure 1 reveals some interesting patterns about the distribution of blockholdings in listed banks in the EU. In Continental Europe, a clustering of blockholdings is visible at the 25 and 50 percent level. Such block holdings are necessary to have a blocking minority and a simple majority, respectively. In the United Kingdom, the largest blockholding is usually lower than the 30 percent threshold that requires a mandatory bid to all shareholders in case of a takeover. The mandatory bid rule, hence, effectively ensures that the growth of blockholdings stops short of the 30 percent level. The same can be found for the non-financial sector in the United Kingdom (Becht and Röell, 1999). In the next section, we will analyze the effect of the mandatory bid rule and other corporate governance regulations against the background of different ownership structures in the EU banking sector.

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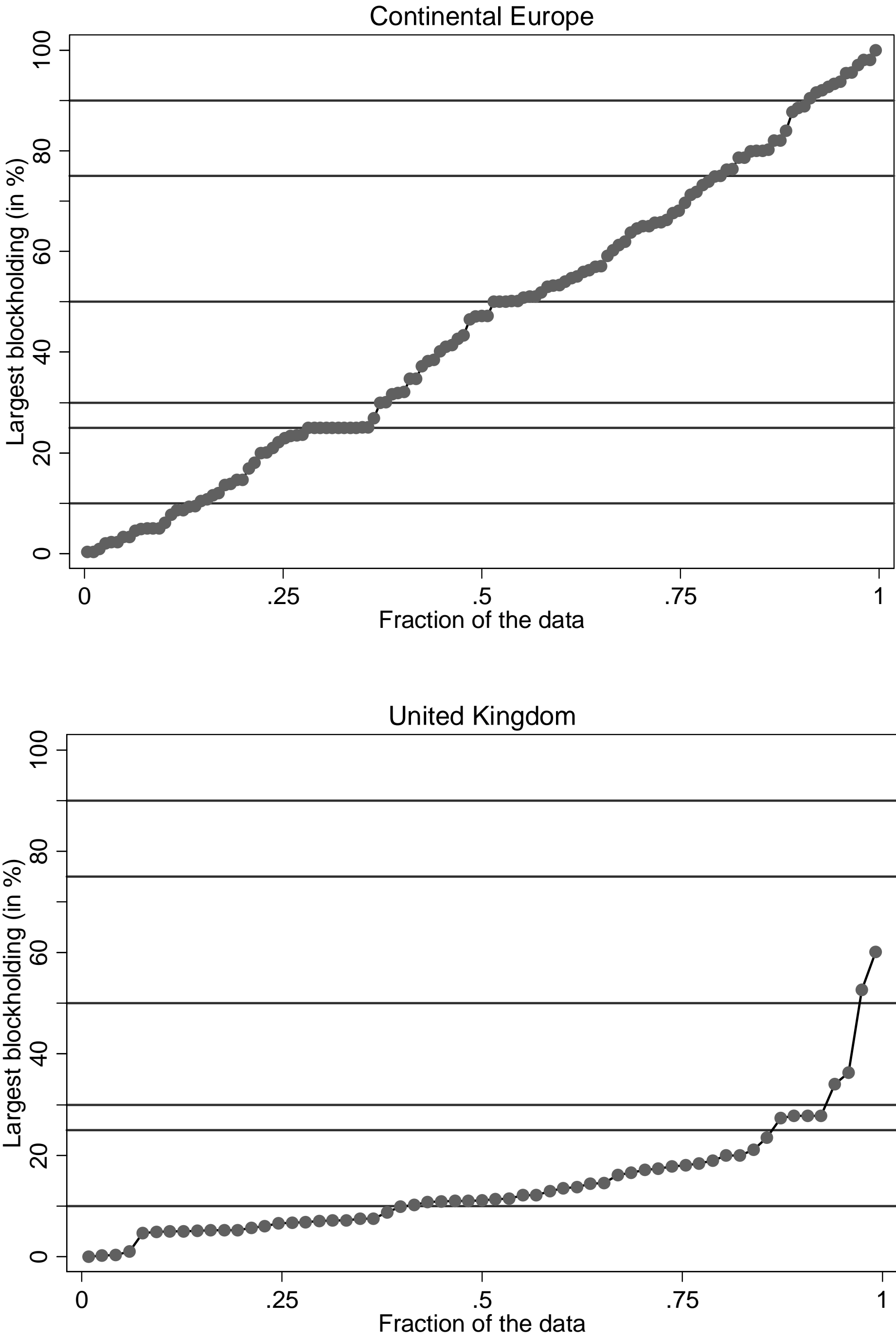
[2] Quantile plots for individual member countries are presented in Figure 2 in the *Appendix*.

Figure 1: Distribution of the largest blockholding in the EU banking sector



Source: Bankscope (2008). Note: Continental Europe includes France, Germany, Italy and Spain. The horizontal lines indicate the 10 (qualified holding), 25 (blocking minority), 30 (mandatory bid), 50 (simple majority), 75 (super majority) and 90 percent (squeeze-out) threshold.

4 Corporate Governance Regulation in the EU

To improve corporate governance in the EU, the Commission has adopted several directives over the past years. Improving of corporate governance is deemed a necessary response of the growing trend for European companies to operate cross-border in the internal market, the continuing integration of European capital markets and the rapid development of new information and communication technologies (Winter et. al, 2002). A reform of corporate governance in the EU was also deemed necessary owing to the damaging impact of financial scandals like that of Parmalat that collapsed at the end of 2003 and forced the management to seek bankruptcy protection. As a result of the recent bank failures in Europe and the US following the financial market crisis, corporate governance regulation is expected to become more important again in the next years.

The current corporate governance legislation in the EU has mainly been shaped by the 2002 report of the *High Level Group* (Winter et. al, 2002). It has resulted in an action plan that was adopted by the EU Commission in 2004. In the following, we will only present those directives we deem as particularly relevant for corporate governance and ownership structure in the EU banking sector.

4.1 Transparency and Shareholder Directive

The Transparency Directive 2004/109/EC (amended by directive 2007/14/EC) was adopted in 2004 following the proposals of the Winter Commission to harmonise market transparency in the EU. The directive aims at protecting minority shareholder rights by setting minimum transparency requirements. The requirements regard not only the publication of periodic financial information, but also the notification of the acquisition and disposal of major shareholdings. The directive requires shareholders to notify the issuer about the proportion of their voting rights once the latter exceeds 5, 10, 15, 20, 25, 30, 50 and 75 percent as a result of the acquisition or disposal of shareholdings (Art. 9, p. 1). The reporting requirement not only includes voting rights that are directly held by the investor, but also those that are indirectly held by a third party (Art. 10, p. 1). The Transparency Directive only imposes minimum harmonisation requirements. This allows member states to adopt more stringent notification requirements to increase transparency. This is reflected in Table 7. Italy sets the initial disclosure threshold at 2 and Germany, Spain and the United Kingdom at 3 percent. France has set the initial disclosure threshold in line with the Transparency Directive at 5 percent. The member countries also set disclosure thresholds above 75 percent. In Spain, the highest disclosure threshold is 90 percent. France, Germany and Italy even require notification at the 95 percent level.

The disclosure requirement aims at increasing transparency and making the monitoring of large shareholders by regulators, minority shareholders and the market easier in order to avoid that large blockholders use their power to extract private benefits at the expense of other shareholders (Goergen et al., 2005). While the Transparency Directive has increased investor protection, it has also reduced the efficiency of the takeover market. The reason is that the disclosure of majority shareholdings might alert the market that a bid is likely to take place. This drives up the share price. If the shareholders expect the bidder to raise the efficiency of the firm, they will not tender their shares unless the share price offered by the bidder reflects the full efficiency gains from the takeover (Grossman and Hart, 1980). It follows that the bidder withdraws his offer, because he will not make any profits under these conditions. One solution to this problem is that the bidder is allowed to extract private benefits after the takeover (Grossman and Hart, 1980).[3] Another is to build up a toehold in the target before the official takeover bid is launched (Shleifer and Vishny, 1986). The toehold allows the bidder to make a profit, since he gains on the shares he already owns. Hostile takeovers are, hence, more likely to take place if the bidder has a toehold in the target.[4] Critical is the level at which the toehold has to be disclosed. If the disclosure level is low and the bidder is not able to acquire a large blockholding, the threat of a hostile takeover will be low since most efficiency gains that arise from the takeover have to be passed on to the shareholders. This suggests that the Transparency Directive while improving investor protection has reduced the efficiency of the takeover market.

Investor protection is further improved by the Directive 2007/36/EC on Shareholder Rights. It had to be transposed into national law until 2009. This directive introduces minimum standards to ensure that shareholders have a timely access to the relevant information ahead of the general meeting and simple means to vote at a distance. The directive particularly affects blockholders that do not have outright control over the company and depend on the absence of minority shareholders on the general meeting to have *de facto* control. The effect on the ownership structure is ambiguous in the blockholder-based system. Provided that the blockholder is not financially constrained, he

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3 Grossman and Hart (1980) call this ‘dilution’. One method is for shareholders to permit a successful bidder to sell the firm’s assets or output to another company owned by the bidder at terms which are disadvantageous to minority shareholders (Grossman and Hart, 1980). Dilution of minority shareholders is expected to raise the threat of hostile takeover, since it excludes the shareholders that are not tendering from completely sharing in the benefits of improving the corporation after the takeover. Grossman and Hart (1980) show that dilution is under certain conditions beneficial for the minority shareholder as well, since the threat of a hostile takeover forces the management to be more efficient.

4 Toeholds also lower the chance of entry of a rival bidder and reduce managerial resistance against a takeover (Betton and Eckbo, 2000). For more on this issue see also Bulow et al. (1999).

might increase his blockholding to obtain *de jure control*. This should lead to a more concentrated ownership structure. If the blockholder is financially constrained, he might sell his shareholding. This should lead to a more dispersed ownership structure.

Table 7: Disclosure thresholds

	Lower	5	10	15	20	25	30 (1/3)	35	40	45	50	55	60	65	70	75 (2/3)	80	85	90	95
Austria		x	x	x	x	x	x	x	x	x	x					x				
Belgium		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Finland		x	x	x	x	x	x				x					2/3				
France		x	x	x	x	x	1/3				x					2/3			x	x
Germany	3%	x	x	x	x	x	x				x					x				x
Greece																				
Ireland		+1% above the inital threshold																		
Italy	2%	x	x	x	x	x	x	x	x	x	x			2/3		x			x	x
Luxembourg		x	x	x	x	x	1/3				x					2/3				
Netherlands		x	x	x	x	x	x		x		x		x			x				x
Portugal		x	x	x	x	x	1/3				x					x				
Spain	3%	x	x	x	x	x	x	x	x	x	x		x		x	x	x		x	
United Kingdom	3%	+1% above the inital threshold																		

Source: EU Commission (2008)

The Shareholder Rights and Transparency Directive make large blockholdings less attractive, since the higher degree of investor protection reduces the scope of large blockholders to extract private benefits to the detriment of minority shareholders. The attractiveness of large blockholdings is further reduced by the disclosure requirement, since it lowers the ability of potential bidders to acquire large toeholds without the awareness of the remaining minority shareholders. This should reduce the threat of a hostile takeover in the EU banking market. While the Shareholder Rights has improved corporate governance, the effect of the Transparency Directive on corporate governance is, therefore, not clear *a priori*. For a summary of the effects of both directives on the ownership structure, the takeover market and the level of investor protection see Table 6 in the *Appendix*. In the next section, we shall analyze the effect of the Takeover Directive.

4.2 Takeover Directive

The Takeover Directive 2004/25/EC was adopted in 2004 and had to be implemented in national law until 2006. The directive has two major goals. On the one hand, the introduction of common rules for takeovers should improve the efficiency of the market for corporate control in the EU. The directive particularly aims at improving the efficiency of the takeover market in Continental Europe, since the market for corporate control is generally assumed

to be active in the United Kingdom. On the other hand, the aim of the directive is to increase the protection of minority shareholders in the case of a takeover.

The main changes of the directive are the introduction of a mandatory bid rule, a squeeze-out/sell-out rule, a board neutrality rule and a breakthrough rule. While the mandatory bid rule and sell-out rule aim at increasing investor protection, the aim of the squeeze-out rule, the board neutrality and the breakthrough rule is to facilitate takeovers. In the following, each of these rules and their impact on corporate governance and ownership structure in the banking sector will be discussed in greater detail.

- ***The Mandatory Bid Rule***

The mandatory bid rule obliges an investor to make a full takeover bid for all remaining voting shares of listed banks once he has taken over a blockholding that directly or indirectly gives him *de facto* control over the acquired company (Art. 5, p. 1). A mandatory bid is only required if the bidder makes a takeover bid to a single shareholder or a group of shareholders in a privately negotiated deal. If he makes a voluntary offer for all shares of all shareholders, the mandatory bid rule does not apply (Art. 5, p. 2). *De facto* control is assumed if the number of voting shares exceeds particular thresholds. Since the EU Commission has left the member countries with leeway in implementing the directive (Art. 5, p. 3), there is considerable heterogeneity in mandatory bid thresholds among EU member countries. This is reflected in Table 8. Most common is the 30 percent mandatory bid threshold which is applied in Spain, Italy and the United Kingdom. Germany and France set the threshold at 33 percent. The impact of the mandatory bid rule on the ownership structure of banks becomes visible in the United Kingdom where most of the largest blockholdings stop short of the 30 percent mandatory bid threshold (see Figure 1).

The mandatory bid rule aims at protecting minority shareholders by granting them the right to sell their shares in the event of a change of control (EU Commission, 2007). Minority shareholder rights are protected, since the acquiring blockholder might use his control power to increase his private benefits at the expense of minority shareholders after the takeover. While the mandatory bid rule improves investor protection in case of a takeover, it also reduces the likelihood of a takeover. The reason is that the *equal treatment principle* requires that minority investors have to be paid the same price for their shares as the selling blockholder (Art. 5, p. 4). Since the selling blockholder generally receives a premium for the sale of a control block, the mandatory bid rule drives up the price per share and makes takeovers more costly. The bidder might only be willing to pay the higher price if he expects to create sufficient added value that compensates for the higher share price (Berglöf and Burkhart, 2003). Since takeovers require an even higher added value if the minority

shareholders have to be paid the same price as the incumbent blockholder, the mandatory bid rule prevents value decreasing transactions (Berglöf and Burkhart, 2003). It, however, also reduces the bidder's willingness to take over a bank, even though the control transfer would add value (Berglöf and Burkhart, 2003).

Table 8: Mandatory-bid, squeeze-out and sell-out thresholds

	Mandatory-bid threshold	Squeeze-out threshold	Sell-out threshold
Austria	30%	90%	90%
Belgium	30%	95%	95%
Finland	30%	90%	90%
France	33%	95%	95%
Germany	30%	95%	95%
Greece	33%	90%	90%
Ireland	30%	90%	90%
Italy	30%	95%	95%
Luxembourg	33%	95%	95%
Netherlands	30%	95%	95%
Portugal	33%	90%	90%
Spain	30%	90%	90%
United Kingdom	30%	90%	90%

Source: EU Commission (2007)

Takeovers in the banking sector are particularly less likely in a blockholder-based system. Since ownership is concentrated in the hands of a controlling blockholder, the share price will increase owing to the block premium that has to be paid to the incumbent blockholder. This premium will drive up the total purchase price and reduce the attractiveness of a bank as a takeover target. If the bidder offers a smaller block premium to reduce the total purchase price, the incumbent blockholder will most likely not be appropriately compensated for the loss of the private benefits of control. This should reduce the likelihood that incumbent blockholders accept the bid in a blockholder-based system. In market-based systems, the bidder does not have to pay a block premium because ownership is widely dispersed. Takeovers in market-based systems also usually do not take place through privately negotiated sales, but rather through tender offers. A tender offer is a public offer by an acquirer to all shareholders to tender their stock for sale subject to the tendering of a minimum and maximum number of shares. The mandatory bid rule, hence, reinforces concentrated ownership structures and reduces the likelihood of a takeover particularly in those countries where the Takeover Directive aims at increasing it. In the United Kingdom, the mandatory bid rule will, in contrast, leave the ownership and control structures almost unaffected.

- ***The Board Neutrality Rule***

The board neutrality rule aims at facilitating hostile takeovers. It provides that during the bid period the board of the target bank must obtain prior authorization from the general meeting of shareholders before the adoption of *post-bid* defences (Art. 9, p. 1). Examples for *post-bid* defences are share buybacks that aim at reducing the number of available shares the bidder could acquire or the issuance of share capital to increase the cost of the bid. They are put in place once a company has become subject to a takeover bid. Under the takeover directive the board is only allowed to search for an alternative bidder ('white knight)' (Art. 9, p. 1). The board of the target bank shall, furthermore, draw up and make public a document setting out its opinion of the bid and the reasons on which it is based, including its views on the effects of implementation of the bid on all the company's interests and on the strategic plans of the incumbent management for the target company and their likely repercussions on employment and the locations of the company's places of business (Art. 9, p. 5). The board neutrality rule should make hostile takeovers easier by limiting the board's power to raise obstacles to hostile takeovers to the detriment of minority shareholders (EU Commission, 2007). Managers might use *post-bid* defences, since the bidder likely replaces the management after the takeover. Since bidders usually targets inefficient banks in takeovers, anti-takeover devices are likely to prevent value-enhancing acquisitions and harm shareholders. Whether the board neutrality rule increases the efficiency of the takeover market, however, depends on the ownership structure of the banking sector. In market-based systems with a widely dispersed ownership structure, the introduction of the board neutrality rule will likely improve the functioning of the takeover market. In blockholder-based systems, the effect of the board neutrality is ambiguous, since the blockholder can be virtue of having a controlling stake in the bank alone decide on *post-bid* defenses. This might increase entrenchment of blockholder since he has the power to affect any corporate decisions not through management but directly (Goergen et al., 2005).

- ***The Breakthrough Rule***

The breakthrough rule also aims at facilitating hostile takeovers by enabling the bidder to break through existing takeover defences that make takeovers more difficult. While the board neutrality rule focuses on *post-bid* defences, the breakthrough rule aims at eliminating *pre-bid* defences (EU Commission, 2007). It divides the takeover process into two different phases. The first phase is the acquisition phase. During this phase the breakthrough rule eliminates *pre-bid* defence mechanisms like share transfer or voting restrictions. Such voting restrictions shall not have effect at the general meeting of shareholders which decides on any *post-bid* defensive measures (Art. 11, p. 2 and 3). The breakthrough rule also applies to multiple voting shares (Art. 11, p. 3). Such shares should carry only one vote at the above mentioned meeting. The second

phase is the post-takeover phase. During this phase the breakthrough rule eliminates all defence mechanisms that prevent the restructuring of the target. It provides that once the bidder holds 75 percent or more of the shares carrying voting rights no restrictions on the transfer of securities or on voting rights nor any extraordinary rights of shareholders concerning the appointment or removal of board members shall apply on the first general meeting of shareholders after the acquisition (Art. 11, p. 4). [5]

The breakthrough rule facilitates takeovers since it allows the bidder to bypass the incumbent blockholder to take control of the bank. Since every share has only one vote under the breakthrough rule, the bidder can directly make a tender offer to the minority shareholders to take over control. This means he does not have to make a privately negotiated block trade with the incumbent blockholder to assume control. This should reduce the purchase price since the bidder neither has to pay a control premium to the incumbent blockholder nor has to make a subsequent mandatory bid in which he has to pay the control premium also to minority shareholders. The breakthrough rule, hence, makes value increasing control transfers feasible that are frustrated by the opposition of the incumbent blockholder or by the mandatory bid rule (Berglöf and Burkhart, 2003). Since controlling blocks with less than 25 percent of the votes lose their veto power over a control transfer, blockholders that have less than a blocking minority will lose their control premium. Owing to the relatively large number of blockholdings below the 25 percent level this should particularly affect the incumbent blockholders in Italy and Spain (see Figure 2). The loss will be reflected in smaller price differentials between shares with high voting power and shares with low voting power. This should manifest in a lower premium paid in block trades to the extent that such transactions continue to take place in the presence of a mandatory bid (Berglöf and Burkhart, 2003). Since blockholders that own less than 25 percent of the voting rights will not be appropriately compensated for the loss of private benefits in a block trade, they will likely adopt measures to frustrate the bidder. Provided that the incumbent blockholders are not financially constrained, one way is to increase the blockholding above the 25 percent threshold. If the incumbent blockholder is financially constrained, he could form a control pyramid and enhance cross-shareholding structures (Berglöf and Burkhart, 2003). These defensive mechanisms are not covered by the takeover directive.[6] Bennedsen and Nielsen

[5] The breakthrough rule does according to Art. 11, 6 not apply to securities where the restrictions on voting rights are compensated for by specific pecuniary advantages (e. g. non-voting preference shares).

[6] The *Winter Group* explicitly acknowledges that pyramids and dual class shares serve the purpose of keeping control with little equity capital, but recommends that the break-through rule should not apply to pyramids because it would be too complicated and expensive. Hence,

(2004), furthermore, point out that the introduction of the breakthrough rule might also have an impact on banks in which the controlling blockholder owns more than 25 percent of the capital. Since such blockholders are able to block the restructuring of the bank after the takeover, the likelihood of a takeover is smaller for banks that have a blockholder that holds more than 25 percent of the votes. This increases managerial entrenchment (Berglöf and Burkhart, 2003). The effect of the breakthrough-rule on investor protection is, hence, ambiguous.

- ***The Squeeze-Out Rule/Sell-Out Rule***

The squeeze-out rule also affects the ownership structure of a bank. The squeeze-out rule allows bidders that have taken over a large part of capital to acquire the outstanding shares for a fair price (Art. 15, p. 2). Forcing out minority shareholders out of the bank should liberate the bidder from costs and risks which continued existence of minorities could trigger (EU Commission, 2007). The squeeze-out rule also reduces the problem that minority shareholders will not tender their shares unless the share price offered by the bidder reflects the full efficiency gains from the takeover (Grossman and Hart, 1980). As argued in Section 4.1, this will drive up the share price and finally led to the withdrawal of the bid. The squeeze-out rule reduces this *holdout problem* because in case that a bid is conditional on the squeeze-out threshold shareholders cannot gain from not tendering their shares. This implies that they are willing to sell their shares for a price that is less than the post-takeover price (Goergen et al., 2005). It follows that the bidder is able to internalize more efficiency gains of the target after the takeover. The squeeze-out rule, hence, increases the incentive of the bidder to take over a bank and improves the efficiency of the market for corporate control. It steps in if the ownership share of the blockholder exceeds particular thresholds. The EU member countries are free to set this threshold between 90 and 95 percent (Art. 15, p. 1). This is reflected in Table 8. Most common is the 90 percent threshold which is used in Spain and the United Kingdom. France, Germany and Italy set the threshold at 95 percent. The counterpart of the squeeze-out rule is the sell-out rule. It provides minority shareholders the right to sell their shares to the blockholder once the latter has passed the sell-out threshold (Art. 16, p. 1). In contrast to the squeeze-out rule, the sell-out rule should reduce the likelihood of a takeover if the bidder is not interested in taking over all shares, since it increases the total purchase price. While the squeeze-out rule aims at facilitating takeovers, the sell-out rule should protect minority shareholders from being expropriated by the blockholder after the takeover. Together they should lead to a complete takeover of all shares once the blockholder has passed the squeeze-out/sell-out threshold.

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the Report has been criticized for exempting or even promoting pyramids, thereby affecting existing corporate governance arrangements asymmetrically (Bebchuk and Hart, 2002).

To summarize, the Takeover Directive aims at facilitating hostile takeovers and protecting minority shareholders in the case of a takeover. While the directive has reached its aim to increase the protection of minority shareholders, it has failed to raise the likelihood of hostile takeovers in countries where ownership is concentrated. In countries with concentrated ownership structures, the introduction of the mandatory bid rule has rather reinforced existing ownership structures and increased managerial entrenchment. This is particularly the case in countries where blockholders enjoy large private benefits of control. The positive effect of the squeeze-out on the takeover market has been cancelled out by the introduction of the sell-out rule. The breakthrough rule also fails to improve the efficiency of the takeover market. One reason is that the incumbent blockholder is still able to approve defensive mechanisms in the general meeting if ownership is concentrated. He might also increase entrenchment by forming control pyramids. Entrenchment is also increased by the possibility of the member states to *opt-out* of the board neutrality and breakthrough rule (Art. 12, p. 1).

Table 9 shows that Germany and Italy have used this option. They neither apply the board neutrality nor the breakthrough rule. Where Member States make use of this option, companies have the right to *opt-in* and to apply the rules (Art. 12, p. 2). France and Spain oblige their companies to apply the board neutrality rule, but not the breakthrough rule. They have, however, introduced the *principal of reciprocity* that allows them to exempt their companies from the board neutrality rule if the bidder does not apply the board neutrality rule himself (Art. 12, p. 3). This principal was introduced to prevent that a company that is not allowed to use defence mechanism is taken over by a company that is allowed to do so. It has undermined the introduction of the board neutrality rule in France and Spain. The United Kingdom also applies the board neutrality rule, but not the principle of reciprocity. The probability of a takeover is also reduced by the fact that the breakthrough rule does not apply to securities that confer special rights on the member states ('golden shares', Art. 11, p. 7). This should significantly reduce the likelihood of a takeover in countries where government ownership is high.

The shortcomings of the Takeover Directive have been recognized by the EU Commission. In its report on the implementation of the Takeover Directive it states that the board neutrality rule as implemented in the member states holds back the emergence of a market for corporate control (EU Commission, 2007). The Commission, furthermore, notes that it is unlikely that the breakthrough rule will bring significant benefits as implemented in the member states (EU Commission, 2007). It hopes that the directive will indirectly improve the conditions for hostile takeovers through the disclosure of takeover defences (EU Commission, 2007). If investors are aware of such defences, they might push the management to abolish them to reduce managerial entrenchment. That market

forces might prevent the adoption of takeover defences is demonstrated by the United Kingdom. Although many devices to separate ownership and control are not prohibited, companies usually do not apply them (Shearman and Sterling, 2007).

Table 9: Adoption of the board neutrality and breakthrough rule

	Transposition of the takeover directive	Board neutrality rule	Breakthrough rule	Reciprocity principle
Austria	yes	adopted	not adopted	not adopted
Belgium	no	not adopted	not adopted	adopted
Finland	yes	adopted	not adopted	not adopted
France	yes	adopted	not adopted	adopted
Germany	yes	not adopted	not adopted	adopted
Greece	yes	adopted	not adopted	adopted
Ireland	yes	adopted	not adopted	not adopted
Italy	no	not adopted	not adopted	adopted
Luxembourg	yes	not adopted	not adopted	not adopted
Netherlands	no	not adopted	not adopted	adopted
Portugal	yes	adopted	not adopted	adopted
Spain	no	adopted	not adopted	adopted
United Kingdom	yes	adopted	not adopted	not adopted

Source: EU Commission (2007).

5 Trends in Ownership and Corporate Governance in the EU Banking Sector

The ownership structure in the EU banking sector has changed in the past years. In this section, we will present the main trends that will likely affect corporate governance in the banking sector in the future.

5.1 Foreign and Institutional Investors

The first trend is the larger number of foreign investors in the EU banking sector. Their importance has increased relatively to domestic investors in recent years (ECB, 2008). The second trend that has changed the ownership structure of banks is the growing importance of institutional investors. Institutional investors include mutual fund shares as well as insurance and pension funds. Those funds increasingly invest their funds in equity. There are, however, large differences across countries in the importance institutional investors. While in the United Kingdom funds invest a larger percentage of their portfolio in equity, portfolio composition is more diversified in Continental Europe (ECB, 2008). Both the larger presence of foreign and institutional investors will likely affect corporate governance in the EU banking sector in the future. The reason is that institutional investors have larger incentives to monitor and to control the

management of bank. Institutional investors, for example, are more likely to collect the votes of other shareholders to push for corporate governance reforms (Gillian and Starks, 2000). Institutional ownership also reduces the agency problem between the controlling blockholder and the minority shareholder, since institutional investors aim at achieving the highest return from their investment and should act in line with the interest of minority shareholders. Institutional investors are also less likely to vote for defence mechanism to block hostile takeovers (Brickley et al., 1988; Jarrell and Poulsen, 1988). This should facilitate hostile takeovers and improve the efficiency of the market for corporate control. The greater importance of institutional investors should, hence, improve corporate governance in the banking sector. Corporate governance should be even more effective if institutional investors are located abroad, since foreign investors should have a more distant relationship with the management of the company they control (ECB, 2008). This should raise the independence of the monitor and further enhance corporate governance in the EU banking sector.

5.2 Sovereign Wealth Funds

The third trend in the EU banking sector besides the larger presence of foreign and institutional investors is the increasing importance of sovereign wealth funds as bank shareholders. Owing to the large amount of currency reserves and the financial distress of many banks following the financial market crisis particularly sovereign wealth funds from the Asia and Middle East have become major shareholders in EU and US banks. For a list of shareholdings of sovereign wealth funds in the European banking sector see Table 10 in the *Appendix*. In the moment, sovereign wealth funds are active in Italy, Germany, Switzerland and the United Kingdom. To prevent that these funds acquire or increase their shareholdings in the banking sector, many member states plan to restrict the investment opportunities of such funds. France, for example, plans to set up a sovereign wealth fund to take over significant shareholdings in troubled French companies in order to prevent that a foreign sovereign wealth fund acquires a stake in domestic companies (Hall, 2008). The Italian government also plans to impose restrictions on the ownership of domestic companies by sovereign wealth funds. The plan foresees not only to limit stakes of sovereign wealth funds in Italian companies to 5 percent, it should also allow the board of directors to adopt defence mechanism to fend off hostile takeovers without the approval of the general meeting (Dinmore, 2008). These and other measures by member countries might undermine corporate governance regulation in the EU and might lead to new barriers to takeovers in the EU banking sector not only for sovereign wealth funds, but also for other investors. Owing to the disciplining role of hostile takeovers for bank managers this could have a negative impact on corporate governance.

6 Conclusions

Ownership structures widely differ across the EU. While in Continental Europe large blockholdings dominate, ownership is widely dispersed in the United Kingdom. These differences have consequences for corporate governance in EU banking sector. While in the United Kingdom, principal-agent problems arise between the management and minority shareholders as a result of the dispersed ownership structure in the banking sector, ownership is concentrated in Continental Europe and agency problems occur between small shareholders and large blockholders. Corporate governance deals with these problems. The aim of this paper was to analyze the existing corporate governance structures in the EU banking sector against the background of the regulatory environment and differences in the ownership structure of banks. Table 6 in the *Appendix* provides a summary on the effects of the EU directives discussed in this paper on the ownership structure of a bank, the takeover market and the level of investor protection.

The results indicate that EU regulations have not always improved corporate governance in the banking sector. While the Transparency and the Shareholder Directive have improved the protection of minority shareholders by raising transparency and facilitating distant voting, the Transparency Directive has reduced the efficiency of the takeover market. This illustrates the trade-off between better investor protection and a higher efficiency of the market for corporate control that is characteristics for corporate governance regulation in the EU. The same trade-off characterizes the Takeover Directive. While the squeeze-out rule has increased the efficiency of the market for corporate control, the sell-out rule has reduced it. Another problem of corporate governance regulations in the EU is that it fails to take account of the differences in the ownership structure of banks in Continental Europe and the United Kingdom. This has been demonstrated by the mandatory bid rule. While it fails to have an effect on takeover activity in countries with dispersed ownership structures (United Kingdom), it has increased managerial entrenchment in countries with concentrated ownership structures (Continental Europe). The consequence is that the mandatory bid rule has reduced the efficiency of the market for corporate control particularly in those countries in the EU where it aims at increasing it.

The efficiency of the market for corporate control is further reduced by the fact that many EU countries do not apply the breakthrough rule and board neutrality rule or circumvent it by applying the principle of reciprocity. One reason is that member states are still very protectionist and want to protect domestic industries from being taken over by foreign investors. This has recently become visible in the debate on sovereign wealth funds from the Asia and Middle East. To prevent that such funds are able to acquire significant shareholdings in major companies, many EU member countries plan to adopt measures that restrict the investment

opportunities of such funds. This might lead to the re-introduction of anti-takeover defences and other barriers to takeovers in the EU banking sector not only for sovereign wealth funds, but also for other investors.

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Appendix

Table 1: List of banks and shareholdings

France	Frequency	Percent	Cumulative
ABC Arbitrage	13	2.67	2.67
Affine	24	4.93	7.6
Altarea	14	2.87	10.47
BNP Paribas	85	17.45	27.93
Banque Tarneaud	2	0.41	28.34
Banque de Savoie	1	0.21	28.54
Banque de la Réunion	1	0.21	28.75
Bourse Direct	10	2.05	30.8
Boursorama	19	3.9	34.7
CFCAL Banque-Crédit Foncier et Communal	4	0.82	35.52
Caisse régionale de crédit agricole mut	1	0.21	35.73
Cofitem - Cofimur	25	5.13	40.86
Compagnie Financière Martin-Maurel	6	1.23	42.09
Credit Agricole Alpes Provence-Caisse r	1	0.21	42.3
Credit Agricole Centre Loire-Caisse Reg	1	0.21	42.51
Credit Agricole Sud Rhône Alpes-Caisse	4	0.82	43.33
Credit Agricole de la Touraine et du Po	1	0.21	43.53
Crédit Agricole Atlantique Vendée-Caiss	2	0.41	43.94
Crédit Agricole Loire Haute-Loire-Caiss	4	0.82	44.76
Crédit Agricole Nord de France-Caisse r	2	0.41	45.17
Crédit Agricole S.A.	37	7.6	52.77
Crédit Agricole d'Aquitaine-Caisse régi	1	0.21	52.98
Crédit Agricole d'Ile-de-France-Caisse	1	0.21	53.18
Crédit Agricole de Toulouse et du Midi	1	0.21	53.39
Crédit Agricole de l'Ille-et-Vilaine-Ca	3	0.62	54
Crédit Agricole du Morbihan-Caisse régi	3	0.62	54.62
Crédit Industriel et Commercial - CIC	15	3.08	57.7
Eurosic	23	4.72	62.42
FALA	4	0.82	63.24
I.R.D. Nord Pas-de-Calais-Institut Régi	10	2.05	65.3
Initiative & Finance Investissement SA	3	0.62	65.91
Locindus	17	3.49	69.4
Natixis	21	4.31	73.72
SDR Bretagne	21	4.31	78.03
SIIC de PARIS	7	1.44	79.47
SIIC de PARIS 8ème	9	1.85	81.31
Société Générale	62	12.73	94.05
Société financière pour le financement	7	1.44	95.48
Union Financière de France Banque	14	2.87	98.36
Viel & Compagnie	8	1.64	100.00
Total	487	100.00	100.00

Germany	Frequency	Percent	Cumulative
AXG Investmentbank AG	2	0.41	0.41
Aareal Bank AG	41	8.35	8.76
Ahag Wertpapierhandelsbank AG	3	0.61	9.37
Baader Wertpapierhandelsbank AG	10	2.04	11.41
Bankverein Werther AG	1	0.2	11.61
Bayerische Hypo-und Vereinsbank AG	3	0.61	12.22
Berlin Hyp-Berlin-Hannoverschen Hypothe	5	1.02	13.24
Comdirect Bank AG	13	2.65	15.89
Commerzbank AG	67	13.65	29.53
Concord Investmentbank AG	9	1.83	31.36
DAB Bank AG	15	3.05	34.42
DF Deutsche Forfait Aktiengesellschaft	16	3.26	37.68
DVB Bank AG	3	0.61	38.29
Deutsche Bank AG	53	10.79	49.08
Deutsche Hypothekenbank (Actien-Gesells	7	1.43	50.51
Deutsche Postbank AG	42	8.55	59.06
Eurohypo AG	3	0.61	59.67
GFKL Financial Services AG	4	0.81	60.49
GRENKELEASING AG	23	4.68	65.17
Gebhard Bank-Gebhard & Co. Wertpapierha	5	1.02	66.19
Gontard & Metallbank AG	8	1.63	67.82
HSBC Trinkaus & Burkhardt AG	4	0.81	68.64
Hornblower Fischer AG	2	0.41	69.04
Hypo Real Estate Holding AG	78	15.89	84.93
IKB Deutsche Industriebank AG	9	1.83	86.76
LBB Holding AG-Landesbank Berlin Holdin	2	0.41	87.17
Merkur-Bank KGaA	2	0.41	87.58
NORDAKTIENBANK AG	6	1.22	88.8
Sino AG	11	2.24	91.04
Tradegate AG Wertpapierhandelsbank	3	0.61	91.65
UmweltBank AG	3	0.61	92.26
VEM Aktienbank AG	5	1.02	93.28
Varengold Wertpapierhandelsbank AG	7	1.43	94.7
Wüstenrot & Württembergische	10	2.04	96.74
mwb Wertpapierhandelsbank AG	9	1.83	98.57
quirin bank AG	7	1.43	100.00
Total	491	100.00	100.00

Italy	**Frequency**	**Percent**	**Cumulative**
Anima S.G.R.p.A	14	1.51	1.51
Apulia ProntoPrestito SpA	8	0.86	2.37
Azimut Holding SpA	72	7.77	10.14
Banca Carige SpA	17	1.83	11.97
Banca Finnat Euramerica SpA	12	1.29	13.27
Banca Ifis SpA	15	1.62	14.89
Banca Intermobiliare di Investimenti e	17	1.83	16.72
Banca Italease SpA	40	4.31	21.04
Banca Popolare dell'Etruria e del Lazio	14	1.51	22.55
Banca Popolare di Intra SpA	13	1.4	23.95
Banca Popolare di Milano SCaRL	66	7.12	31.07
Banca Popolare di Sondrio Societa Coope	1	0.11	31.18
Banca Popolare di Spoleto SpA	13	1.4	32.58
Banca Profilo SpA	21	2.27	34.84
Banca popolare dell'Emilia Romagna	3	0.32	35.17
Banco Desio - Banco di Desio e della Br	18	1.94	37.11
Banco Popolare	44	4.75	41.86
Banco di Sardegna SpA	4	0.43	42.29
CREDEM-Credito Emiliano SpA	21	2.27	44.55
Conafi Prestito SpA	28	3.02	47.57
Credito Artigiano	5	0.54	48.11
Credito Bergamasco	3	0.32	48.44
Credito Valtellinese SCarl	13	1.4	49.84
Generbanca-Banca Generali SpA	14	1.51	51.35
Gruppo Monte dei Paschi di Siena-Banca	32	3.45	54.8
IFI - Instituto Finanziario Industriale	33	3.56	58.36
IW Bank SpA	14	1.51	59.87
Intesa Sanpaolo	87	9.39	69.26
Mediobanca SpA	88	9.49	78.75
Meliorbanca SpA-Meliorbanca Group	19	2.05	80.8
Mittel SpA	11	1.19	81.98
Toscana Finanza SpA	23	2.48	84.47
UBI Banca - Proforma-Unione di Banche I	36	3.88	88.35
UniCredito Italiano SpA	91	9.82	98.17
iNTEk SpA	17	1.83	100.00
Total	927	100.00	100.00

Spain	Frequency	Percent	Cumulative
Banco Bilbao Vizcaya Argentaria SA	183	23.22	23.22
Banco Espanol de Crédito SA, BANESTO	43	5.46	28.68
Banco Guipuzcoano SA	40	5.08	33.76
Banco Pastor SA	51	6.47	40.23
Banco Popular Espanol SA	94	11.93	52.16
Banco Santander SA	178	22.59	74.75
Banco de Andalucia SA	10	1.27	76.02
Banco de Castilla SA	8	1.02	77.03
Banco de Crédito Balear SA	10	1.27	78.3
Banco de Galicia SA	6	0.76	79.06
Banco de Sabadell SA	62	7.87	86.93
Banco de Valencia SA	39	4.95	91.88
Banco de Vasconia SA	7	0.89	92.77
Bankinter SA	57	7.23	100.00
Total	788	100.00	100.00

United Kingdom	Frequency	Percent	Cumulative
3i Group plc	94	3.67	3.67
Aberdeen Asset Management Plc	97	3.79	7.47
Alliance & Leicester Plc	67	2.62	10.09
Alliance Trust Plc	21	0.82	10.91
Arbuthnot Banking Group Plc	46	1.8	12.71
Baillie Gifford Japan Trust Plc (The)	16	0.63	13.33
Baillie Gifford Shin Nippon Plc	15	0.59	13.92
Bankers Investment Trust Plc	9	0.35	14.27
Barclays Plc	99	3.87	18.14
Bradford & Bingley Plc	67	2.62	20.76
Brewin Dolphin Holdings Plc	73	2.85	23.61
British Assets Trust Plc	17	0.66	24.28
Cattles Plc	99	3.87	28.15
Close Brothers Group Plc	84	3.28	31.43
Dunedin Enterprise Investment Trust plc	21	0.82	32.25
Dunedin Smaller Companies Investment Tr	10	0.39	32.64
Edinburgh Investment Trust Plc (The)	17	0.66	33.31
Edinburgh Worldwide Investment Trust Pl	14	0.55	33.85
Electra Private Equity Plc	17	0.66	34.52
Foreign & Colonial Investment Trust Plc	15	0.59	35.11
HBOS Plc	91	3.56	38.66
HSBC Holdings Plc	72	2.81	41.48
ICAP Plc	92	3.6	45.07
Intermediate Capital Group Plc	91	3.56	48.63
Investec Plc	87	3.4	52.03
Islamic Bank of Britain Plc	22	0.86	52.89
Jupiter Primadona Growth Trust Plc	25	0.98	53.87
Lloyds TSB Group Plc	112	4.38	58.25
London Scottish Bank Plc	66	2.58	60.83

United Kingdom	Frequency	Percent	Cumulative
Man Group Plc	113	4.42	65.25
Mercantile Investment Trust plc (The)	16	0.63	65.87
Mid Wynd International Investment	1	0.04	65.91
Monks Investment Trust Plc	6	0.23	66.15
Murray International Trust Plc	15	0.59	66.73
Northern 3 VCT Plc	1	0.04	66.77
Northern Aim VCT Plc	1	0.04	66.81
Northern Investors Company Plc	28	1.09	67.9
Northern Venture Trust Plc	2	0.08	67.98
Pacific Horizon Investment Trust plc	12	0.47	68.45
Paragon Group of Companies Plc	78	3.05	71.5
Polar Capital Technology Trust Plc	13	0.51	72.01
Provident Financial Plc	93	3.64	75.65
RIT Capital Partners Plc	9	0.35	76
Rathbone Brothers Plc	99	3.87	79.87
Royal Bank of Scotland Group Plc (The)	135	5.28	85.14
Schroders Plc	91	3.56	88.7
Scottish Investment Trust Plc	19	0.74	89.44
Scottish Mortgage Investment Trust Plc	13	0.51	89.95
Standard Chartered Plc	118	4.61	94.57
Throgmorton Trust PLC	20	0.78	95.35
Tullett Prebon Plc	99	3.87	99.22
Utilico Investment Trust Plc	7	0.27	99.49
Witan Investment Trust Plc	13	0.51	100.00
Total	2.558	100.00	100.00

Source: Bankscope (2008)

Table 2: Banks and shareholdings by country

Country	Number of banks	Number of shareholdings	Average number of shareholdings per bank
Germany	36	491	13.64
France	40	487	12.18
Spain	14	788	56.29
Italy	35	927	26.49
United Kingdom	53	2.558	48.26
Total	178	5.251	29.50

Source: Bankscope (2008)

Table 3: Banks and shareholdings by bank type

Banktype	Number of banks	Number of shareholdings	Average number of shareholdings per bank
Bank Holding & Holding Company	17	1.133	66.65
Commercial Bank	62	1.886	30.42
Cooperative Bank	23	259	11.26
Investment Bank/ Securities House	27	781	28.93
Islamic Bank	1	22	22.00
Medium & Long term Credit Bank	4	137	34.25
Non-Banking Credit Institution	39	947	24.28
Real Estate/ Mortgage Bank	5	86	17.20
Total	178	5.251	29.50

Source: Bankscope (2008)

Table 6: Effect of EU directives on takeover activity, investor protection and ownership structure (based on Section 4)

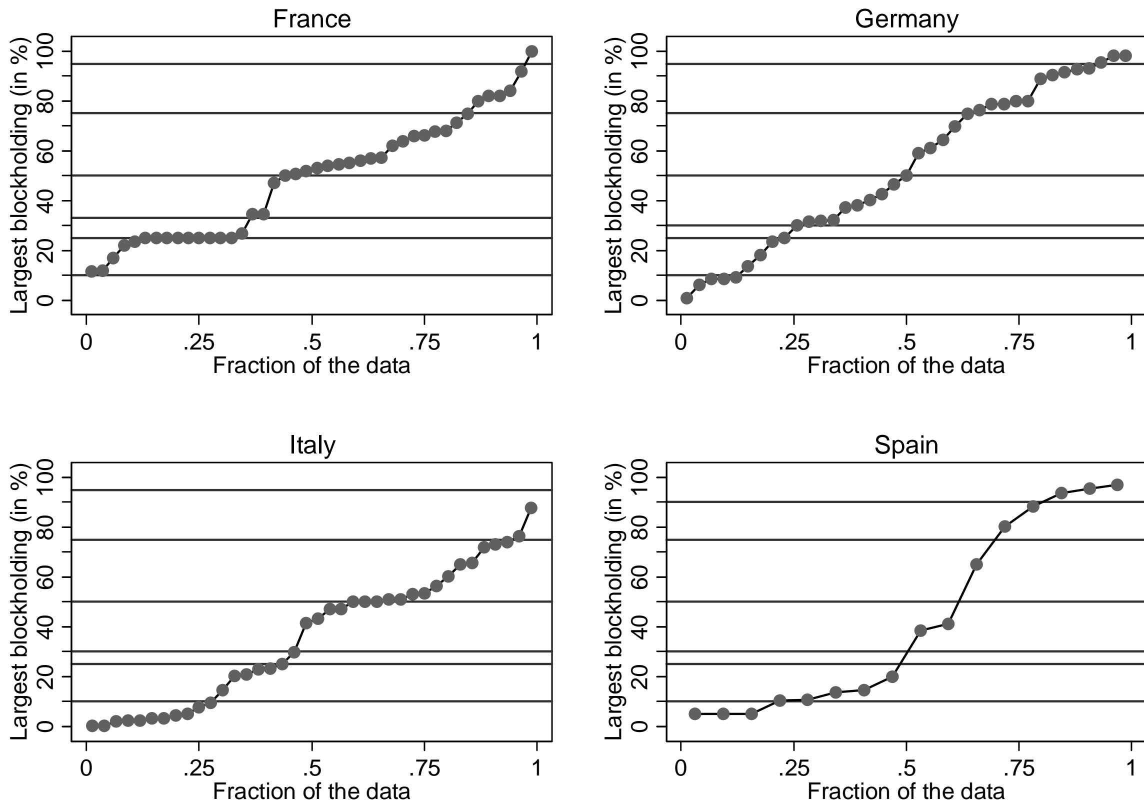
	Concentrated ownership structure Blockholder-based system			Dispersed ownership structure Market-based system		
	Impact on takeover activity	**Impact on investor protection**	**Impact on ownership structure**	**Impact on takeover activity**	**Impact on investor protection**	**Impact on ownership structure**
Transparency Directive	Fewer M&As	Better protection	More dispersion	Fewer M&As	Better protection	No impact
Shareholder Directive	Fewer M&As	Better protection	Ambiguous	Fewer M&As	Better protection	No impact
Takeover Directive						
Mandatory bid rule	Less trade in controlling blocks	Better protection	More concentration	No impact	Better protection	No impact
Squeeze-out rule	More M&As	Better protection	More dispersion	More M&As	Better protection	No impact
Sell-out rule	Fewer M&As	Better protection	More dispersion	Fewer M&As	Better protection	No impact
Breakthrough rule	More M&As	Ambiguous	Ambiguous	More M&As	Ambiguous	No impact
Board neutrality rule	Ambiguous	Ambiguous	Ambiguous	More M&As	Better protection	No impact

Table 10: Sovereign wealth funds from Asia and the Middle East

Country	Target	Industry	Investor	Stake
Germany	Deutsche Bank AG	Banking	Government of Dubai via its funds	2.20%
Italy	UniCredito Italiano SpA	Banking	Government of Lybia via its funds	4.23%
	Capitalia SpA	Insurance	Government of Lybia via its funds	5.00%
Switzerland	UBS AG	Banking	Government of Singapore via its funds	9.00%
	Credit Suisse Group AG	Banking	Government of Qatar via its funds	9.90%
United Kingdom	Barclays Plc	Banking	Government of Singapore via its funds	3.10%
	Barclays Plc	Banking	Government of Qatar via its funds	8.90%
	Barclays Plc	Banking	Government of China via its funds	3.10%
	Standard Chartered Plc	Banking	Government of Singapore via its funds	18.00%
	Standard Chartered Plc	Banking	Government of Dubai via its funds	2.70%
	HSBC Holdings Plc	Banking	Government of Dubai via its funds	0.50%
	Chelsfield Partners LLP	Real Estate	Government of Qatar via its funds	20.00%
	London Stock Exchange Plc	Financial Infrastructure	Government of Qatar via its funds	20.00%
	London Stock Exchange Plc	Financial Infrastructure	Government of Qatar via its funds	28.00%

Source: Sovereign Wealth Fund Institute (2008) and own research.

Figure 2: Distribution of the largest blockholding in the banking sector of individual member countries



Source: Bankscope (2008). Note: The horizontal lines indicate the 10 (qualified holding), 25 (blocking minority), 30 (mandatory bid), 50 (simple majority), 75 (super majority) and 90 percent (squeeze-out) threshold.