

THE SHAREHOLDER
RIGHTS AND
ACTIVISM
REVIEW

THIRD EDITION

Editor
Francis J Aquila

THE LAWREVIEWS

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PREFACE

Over the years since the financial crisis, shareholder activism has been on the rise around the world. Increasingly institutional shareholders are taking a range of actions to leverage their ownership position to influence public company behaviour. Activist investors often advocate for changes to the company, such as its corporate governance practices, financial decisions and strategic direction. Shareholder activism comes in many forms, from privately engaging in a dialogue with a company on certain issues, to waging a contest to replace members of a company's board of directors, to publicly agitating for a company to undergo a fundamental transaction.

Although the types of activists and forms of activism may vary, there is no question that shareholder activism has become a prominent, and likely permanent, feature of the corporate landscape. Boards of directors, management and the markets have increasingly become more attuned to shareholder activism, and engaging with investors is a priority for boards and management as a hallmark of basic good governance.

Shareholder activism is now a global phenomenon that is effecting change to the corporate landscape not only in North America but also in Europe, Australia and Asia. While shareholder activism is still most prevalent in North America, and particularly in the United States, shareholder activism continues to expand its reach across the globe. This movement is being driven by, among other things, a search by hedge funds for new investment opportunities and a cultural shift toward increased shareholder engagement in Europe, Australia and Asia.

As both shareholder activists, and the companies they target, become more geographically diverse, it is increasingly important for legal and corporate practitioners to understand the legal framework and emerging trends of shareholder activism in the various international jurisdictions facing activism. *The Shareholder Rights and Activism Review* is designed as a primer on these aspects of shareholder activism in such jurisdictions.

My sincere thanks to all of the authors who contributed their expertise, time and labour to this third edition of *The Shareholder Rights and Activism Review*. As shareholder activism continues to diversify and increase its global footprint, this review will continue to serve as an invaluable resource for legal and corporate practitioners worldwide.

Francis J Aquila

Sullivan & Cromwell LLP

New York

August 2018

LUXEMBOURG

Margaretha Wilkenhuysen and Zsófia Varga¹

I OVERVIEW

Unlike certain neighbouring countries, in Luxembourg listed companies are often controlled by one or more major shareholders, rendering it difficult to provide examples of shareholders or investors having taken public and adversarial approaches. Probably the most memorable example of shareholder activism in Luxembourg is in relation to the ArcelorMittal merger in 2007. Furthermore, a significant number of Luxembourg companies are listed abroad and these entities often need to apply Luxembourg law as well as the rules of the foreign exchange (e.g., NYSE or Nasdaq). Recent changes to Luxembourg law, including the Shareholder Act,² marked an important step in Luxembourg CSR legislation and provided shareholders with more statutory rights enabling them to play a more active role in listed companies.

II LEGAL AND REGULATORY FRAMEWORK

i The Luxembourg corporate governance regime

Luxembourg's main statutes on corporate governance include the 10 August 1915 Act on commercial companies (the Companies Act),³ the Market Abuse Regulation⁴ and the Shareholder Act.

The Shareholder Act came into force on 1 July 2011. It implemented Directive 2007/36/EC on the Exercise of Certain Rights of Shareholders in Listed Companies, aiming to increase shareholders' activism and setting out a number of shareholders' rights. The Shareholder Act applies to companies that have their registered office in Luxembourg and whose shares are admitted to trading on a regulated market in a Member State of the European Union, and to Luxembourg companies whose shares are traded on a regulated market outside the European Union if such companies have elected to opt into the rules of the Shareholder Act. The Shareholder Act goes beyond Directive 2007/36/EC's requirements,

1 Margaretha Wilkenhuysen is a partner and Zsófia Varga is a professional support lawyer at NautaDutilh.

2 Act of 24 May 2011 on shareholders rights in listed companies, as last amended by the Act of 18 December 2015 and implementing Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies.

3 Act of 10 August 1915 on Commercial Companies.

4 Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse as complemented by the Act of 23 December 2016 on Market Abuse implementing Regulation (EU) No. 596/2014, Directive 2014/57/EU and Directive 2015/2392/EU.

and aims to increase shareholders' active participation in their companies by enabling them to exercise their voting rights, ensuring their right to place items on shareholders' meetings' agendas and to ask questions.

Shareholder rights and governance in Luxembourg are statute-based, consisting primarily of the Civil Code, the Companies Act and, for listed companies, the rules and regulations of the Luxembourg Stock Exchange (LuxSE). However, the statutory law provisions only give very general governance rules or principles.

As a supplement to the general statutory law, the LuxSE's 10 Principles of Corporate Governance (the LuxSE Principles), as modified in October 2009 and revised in March 2013 and December 2017 (fourth edition),⁵ provide guidelines on best practice in corporate governance for all companies listed on the LuxSE and all Luxembourg companies whose shares are admitted to trading on a regulated market operated by the LuxSE.⁶ Luxembourg companies listed abroad often find inspiration in these principles of good governance. The LuxSE Principles refer to general corporate governance issues, such as duties of the management board, the management structure, conflicts of interest provisions, remuneration and reporting issues. They also aim to enable the shareholders of listed companies to be actively involved in the company's activities. The LuxSE Principles are highly flexible and adaptable to the activity, size and culture of individual companies. The LuxSE Principles consist of general principles that must be complied with (i.e., 'compliance') and recommendations that, although obligatory in principle, may be deviated from when justified in specific circumstances, provided that adequate explanation is provided (i.e., 'comply or explain'). The recommendations are supplemented by guidelines on how a company should implement or interpret them. The obligation to comply or explain does not apply to the guidelines, which are indicative but not binding.

ii The Luxembourg market for publicly traded companies and Luxembourg-based companies traded abroad

Many companies' shares are traded on the LuxSE, but there are also a number of entities whose shares are listed either on a regulated market within the European Union, other than the LuxSE, such as Euronext and the Warsaw Stock Exchange, but also on the New York Stock Exchange or Nasdaq. In the case of Luxembourg entities listed abroad, the board of such entities needs to reconcile and combine the Luxembourg rules with the rules of such exchange, which in some cases may be challenging.

iii The corporate bodies

The Companies Act and the Shareholder Act provide in general the rules and the framework for shareholders to become active. The Companies Act contains the provisions on the governance of commercial companies, including the powers and responsibilities of the board of directors and the shareholders.

⁵ Available at www.bourse.lu/corporate-governance.

⁶ As an exception, the 10 Principles do not apply to regulated investment companies with variable capital and funds, to which specific regulations apply.

iv The board of directors

Structure

Although the Act of 25 August 2006 introduced the possibility for public limited liability companies to choose a two-tier board structure,⁷ the one-tier board structure⁸ remains by far the preferred option in Luxembourg, with the company being managed exclusively by a board of directors invested with the broadest powers to act in the name and on behalf of the company.

In a two-tier system, the company is managed by two bodies: the management board, charged with the day-to-day management of the company, and a supervisory board. The supervisory board's responsibilities include the appointment and the permanent supervision of the management board members, as well as the right to inspect all company transactions.⁹ No person may at the same time be a member of both the management board and the supervisory board.¹⁰ Members of the supervisory board are liable towards the company and any third party in accordance with general law.¹¹ However, there is no specific guidance relating to the exercise by members of the supervisory board of their duties.

Composition of the board

The board is composed of appointed members (the company's directors). The Companies Act requires a minimum of three directors;¹² the maximum number of directors is undefined (the LuxSE Principles advise 16 directors as a reasonable limit).¹³ While the directors are appointed by the shareholders of the company,¹⁴ the directors choose a chair among their members.¹⁵

Even if director nomination is typically made via the company's nomination committee, any shareholder holding at least 5 per cent for listed entities falling within the scope of the Shareholder Act or 10 per cent for the other entities, as the case may be, has the right to amend a notice to the shareholders' meeting and add the nomination of directors for election.¹⁶

Although no general legal obligations are in place, the LuxSE Principles require that listed companies' boards have a sufficient number of independent directors (the number depends on the nature of the company's activities and share ownership structure), defining independent directors as not having 'any significant business relationship with the company, close family relationship with any executive, or any other relationship with the company, its controlling shareholders or executive managers which is liable to impair the independence of

7 Article 442-1 of the Companies Act.

8 Articles 441-1 to 441-13 of the Companies Act.

9 Article 442-1 et seq. of the Companies Act, in particular, Articles 442-2, third Paragraph, 442-3, first Paragraph, 442-7, first Paragraph, and Articles 442-11 to 442-16.

10 Article 442-17, Paragraph 1 of the Companies Act.

11 Article 442-16 of the Companies Act.

12 Article 441-2, first Paragraph of the Companies Act.

13 LuxSE Principle 3, guideline to Recommendation 3.3.

14 Article 441-2, third Paragraph of the Companies Act.

15 Article 444-3, second Paragraph of the Companies Act.

16 Article 4 of the Shareholder Act.

the director's judgement'.¹⁷ While there are no specific legal provisions regarding independent directors, it is generally understood that all directors, including independent directors, should be provided with timely information for the proper performance of their duties.

Separation of CEO and chair roles: chair's role and responsibilities

While the roles of CEO and chair tend to be separated in practice, there are no legal provisions or guidelines pertaining to a separation of roles or responsibilities. For listed companies, a Recommendation of the LuxSE Principles requires that the chair prepares the board meeting agendas after consulting the CEO and ensures that the procedures for preparing meetings, deliberations, decision-making and the implementation of decisions are correctly applied.¹⁸ Under this non-compulsory guideline, the chair should ensure the proper application of the rules of governance and provide advice to the board.

Luxembourg law does not currently provide for a specific procedure for direct communication between the CEO or the chair and the shareholders.

For listed companies, according to the LuxSE Principles companies should 'establish a policy of active communication with the shareholders' and allow shareholder dialogue with the board and the executive management.¹⁹

Responsibilities of the board of directors

The directors' duties are owed to the company and as such they may be held liable towards the company both on civil and criminal grounds. They are jointly and severally liable in accordance with the general provisions on civil liability²⁰ and the provisions of the Companies Act,²¹ both towards the company and towards all third parties for any damage resulting from a violation of the Companies Act or of the articles of association of the company.

Directors must act in the best corporate interests of the company and are obliged to comply with the Companies Act and with the company's articles of association. This includes the obligation to act as reasonably prudent businesspersons. They must manage the company's business in good faith, with reasonable care, in a competent, prudent and active manner, at all times in the company's best interests, and must refrain from doing anything that does not fall within the scope of the company's corporate objectives. The Companies Act also imposes certain general duties on directors, including the general management of the company, representation of the company towards third parties and upholding their duty to avoid any conflict of interests.²²

The Luxembourg legislature has remained silent on what should be considered a company's best corporate interest. In its judgment delivered in 2015,²³ the Luxembourg District Court made some observations on this notion. It explained that it is an adaptable concept of which the exact interpretation depends on the company concerned and the nature of its activities. For some companies, the corporate interest is aligned to the interests of a company's shareholders. For other companies, it includes the interest of the legal entity as a

17 LuxSE Principle 3, Recommendation 3.5.

18 LuxSE Principle 2, Recommendation 2.4.

19 LuxSE Principle 10.

20 Articles 1382 and 1383 of the Luxembourg Civil Code.

21 Article 441-9 of the Companies Act.

22 Articles 441-7 and 441-12 of the Companies Act.

23 Luxembourg District Court, 23 December 2015, Nos. 145 724 and 145 725.

whole, including the interests of shareholders but also those of employees and creditors. The court remarked that for companies that are used for purposes of financing and pure holding companies, the interest of the company's shareholders will be of overriding importance as the focus of the company's activities is on the rate of return of its investments.

However, it should be noted that directors of LuxSE-listed companies are held to a number of more specific duties under the Transparency Act²⁴ and the Market Abuse EU Regulation,²⁵ in addition to the LuxSE regulations and principles. In terms of the LuxSE Principles, the board of a listed company is bound by a fiduciary duty to its company and shareholders, and 'shall act in the corporate interests and shall serve all the shareholders by ensuring the long-term success of the company'.²⁶

In the event of misconduct, according to prevailing doctrine and case law, the shareholders' meeting must decide whether to make any claim against a director in connection with faults committed by such director in the performance of his or her functions. Creditors of a company may, under certain circumstances, institute action on behalf of the company if the latter fails to do so and if that failure harms the company's creditors.²⁷

Directors' liability towards the company is exonerated further to cover the discharge granted to the board by the annual shareholders' meeting approving the annual accounts. This discharge is valid for the period covered by the accounts presented to and approved by the general meeting of shareholders, provided that they do not contain any omission or false statement of a material fact. Although a discharge given by the general meeting of shareholders extinguishes the board members' liability towards the company, it is important to note that proceedings initiated by third parties are not affected by such discharge.

The company as well as third parties (including any shareholder or creditor with a legitimate interest) may bring an action against a director. Shareholders may, however, only seek compensation for a prejudice that is distinct from the company's collective damage, and that can be defined as an individual and personal damage. The possibility for a (minority) shareholder to sue a director has recently been given an explicit legal basis in Luxembourg law.

If the shareholders have suffered collective damage, it is up to the shareholders' meeting to demand compensation, in which case an action must be brought by the shareholders' meeting on behalf of the company (an action initiated by a single shareholder will be dismissed). The legal basis for the action differs depending on whether the proceedings are invoked by the company or by third parties.

Any action by the company has a contractual basis, whereas an action by third parties will be brought on the grounds of tort liability. Whereas, under contractual liability, only reasonably foreseeable damage is to be repaired (except in cases of fraud), under tort liability all damage caused by the misconduct must be repaired. To elude collective liability, a director must prove that he or she has not taken part in the breach of the Companies Act or of the

24 Act of 11 January 2008 on Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, as last amended by the Act of 23 December 2016.

25 Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse as complemented by the Act of 23 December 2016 on Market Abuse implementing Regulation (EU) No. 596/2014, Directive 2014/57/EU and Directive 2015/2392/EU.

26 LuxSE Principle 2.

27 Article 1166 of the Civil Code.

articles of association of the company, that no misconduct is attributable to him or her and that he or she reported the breach at the first shareholders' meeting following his or her discovery or knowledge of the breach.

For listed companies, the LuxSE rules and regulations provide a series of sanctions in the event its rules are breached, including fines or compensation for damage caused to the stock market.

III KEY TRENDS IN SHAREHOLDER ACTIVISM

There is a trend in Luxembourg law, as is described below in more detail, for more transparency, accountability and increased shareholder rights, especially in listed companies. In addition, minority shareholders have additional rights further to the changes to the Companies Act in 2016. It is hard to predict whether these changes will lead in practice to more public campaigns led by activist shareholders or not. It is certain that boards will, however, have to take into account the potential involvement and action from their shareholders, including minority shareholders.

IV RECENT SHAREHOLDER ACTIVISM CAMPAIGNS

There are very few publicly available examples of shareholder activism in Luxembourg listed companies. The most prominent example was the takeover of Arcelor by Mittal, which was only finally made possible following the pressure of the shareholders. This concrete example, however, is already more than 10 years old, since the takeover took place in 2006.²⁸

Furthermore, Deminor, a firm that is actively engaged in shareholder activism by representing minority shareholders and enforcing their claims accordingly, refers to a couple of Luxembourgish companies on its website as references for interventions by Deminor during 2018 and 2017. However, given the confidential character of most cases, the names of the companies are redacted. This makes it almost impossible to identify the companies concerned, but it is quite likely that they already have or will target Luxembourg listed companies.²⁹

On a side note, Luxembourg hosts a number of funds that invest in companies worldwide and are active as shareholders in these entities. As an example, Active Ownership is a fund, based in Luxembourg, that managed to replace certain members in the supervisory board of STADA.³⁰

V REGULATORY DEVELOPMENTS

i Shareholder rights and powers

Equality of voting rights

The Shareholder Act came into force on 1 July 2011 aiming, *inter alia*, to strengthen the exercise of minority shareholders' voting rights in listed companies in order to improve the corporate governance of such companies. The Shareholder Act explicitly refers to a

28 See www.nytimes.com/2006/06/26/business/worldbusiness/26arcelor.html?pagewanted=all&mcubz=1).

29 See the internet site <https://sgs.deminor.com/en/references/>.

30 See www.reuters.com/article/us-stada-shareholders-aoc-idUSKCN1111AD).

principle of equal treatment of shareholders.³¹ This principle is limited to the participation of shareholders at the general meeting of shareholders and the exercise of their voting rights at that meeting.³² In 2016, the Companies Act amended the previous rule that one vote is in principle attached to one share, henceforth allowing the company to provide for different voting rights for different shares.

In addition, the LuxSE Principles provide that 'the company shall respect the rights of its shareholders and shall ensure that they receive equal treatment. The company shall define a policy of active communication with its shareholders and shall establish a related structured set of practices'.³³

The powers of shareholders to influence the board

The Companies Act reserves the management of the company to its board.³⁴ Should a shareholder be directly involved in the management of the company, he or she may be deemed a *de facto* director and face civil or criminal liability, or both, and generally be liable under the same circumstances as the appointed directors.

Shareholders do, however, control the appointment of the board (and, therefore, its composition) via a majority decision of over 50 per cent of the capital to appoint or revoke directors.³⁵ In addition, shareholders representing 10 per cent of a company's share capital may force the board to postpone a general meeting of shareholders for a period of up to four weeks.³⁶

Furthermore, during the annual general meeting, the shareholders can question the board on all aspects of the company's management, accounting and so forth throughout the year, and may withhold granting discharge. Although previously, shareholders were in practice already allowed to ask questions during the meeting and to receive answers to their questions, the Shareholder Act and the Companies Act now expressly lay down that shareholder right in relation to the items on the agenda of the meeting.³⁷

Under the Shareholder Act, in addition to the right to ask questions orally during a meeting, shareholders may have the right to pose written questions about the items on the agenda before such meeting is held. If provided for in a company's articles of association, questions may be asked as soon as the convening notice for the general meeting is published. The company's articles of association will furthermore provide the cut-off time by which the company should have received the written questions.³⁸

Apart from several specific circumstances (e.g., in the case of confidential information), the company must answer any questions addressed to it. Should several questions relate to the same topic, the company may publish a detailed question and answer document on its website, in which case the chair should draw the shareholders' attention to the publication.

31 Article 2 of the Shareholder Act.

32 Article 2 of the Shareholder Act.

33 LuxSE Principles, Principle 10.

34 Article 441-5 of the Companies Act.

35 Article 441-2, Paragraph 3 of the Companies Act.

36 Article 450-1(6) of the Companies Act.

37 Article 7 of the Shareholder Act.

38 Article 3(2) of the Shareholder Act.

The Act also allows shareholders to submit questions to management outside of a meeting.³⁹ Any shareholder representing at least 10 per cent of the company's share capital or voting rights can ask the board of directors or management body questions about the management and operations of the company or one of its affiliates, without the need for extraordinary circumstances. If the company's board or management body fails to answer these questions within one month, the shareholder may petition, as in summary proceedings, the president of the district court responsible for commercial matters to appoint one or more independent experts to draw up a report on the issues to which the questions relate.⁴⁰

Certain matters must also be reported to the shareholders, such as any director's conflict of interest relating to voting on a resolution (see Section II).⁴¹

Furthermore, if a minority shareholder finds that directors and members of its management and supervisory boards of a public limited liability company are negligent or simply not diligent in the performance of their duties, it may sue them. Such an action may be brought by one or more shareholders or the holders of founders' shares representing 10 per cent or more of the company's voting rights.⁴²

Decisions reserved to shareholders

The Companies Act provides that a company's management board has the most extensive powers to perform all actions necessary or appropriate to fulfil the company's corporate objective,⁴³ with the exception of the actions specifically reserved by law to the shareholders' meeting. Such actions include, *inter alia*, any amendments to the company's articles of association, the approval of annual accounts and the allocation of the company's results, which are reserved to the company's shareholders.

Rights of dissenting shareholders

The Companies Act currently recognises only a few rights of action on behalf of the company in favour of individual shareholders.

Seeking invalidation of a shareholder decision by dissenting shareholders is only possible on the basis of five grounds specified in the Companies Act: (1) procedural irregularity that influenced or could have influenced the outcome of the decision; (2) violation with fraudulent intent of the rules governing general meetings; (3) an *ultra vires* act or abuse of power affecting the decision; (4) exercise at a general meeting of voting rights that have been suspended by legislation other than the Companies Act, provided the quorum or majority required to adopt the decision would not have been met but for the unlawful exercise of these voting rights, and (5) any other cause provided for by the Companies Act.⁴⁴

In addition, minority shareholders enjoy a sell-out right under certain conditions. According to the Squeeze-out Act, in the event of an individual or legal entity acquiring at

39 Article 1400-3 of the Companies Act. This new management evaluation procedure, inspired by French law, was introduced to the Companies Act by the Act of 10 August 2016.

40 Luxembourg District Court, 18 November 2016, No. 1809/2016. This judgment clarified the scope of application of this provisions, and, in particular, the questions that can be asked by the shareholders, and the answers provided by the management that are to be considered satisfactory.

41 Article 441-7, Paragraph 2 of the Companies Act.

42 Article 444-2 of the Companies Act.

43 Article 441-5 of the Companies Act.

44 Article 100-22 of the Companies Act.

least 95 per cent of the share capital of the company and subject to certain conditions, the remaining minority shareholders are entitled to exercise a sell-out right within three months of the required notification and publication of the acquisition.⁴⁵

However, the extension of the protection of minority shareholders by stipulating provisions in the company's articles of association (e.g., the right of a minority coalition to propose directors, provisions for a more stringent majority for certain decisions, approval clauses or share transfer restrictions) is well recognised insofar as such arrangement does not conflict with Luxembourg's public policy rules. Providing such additional protection in favour of minority shareholders, whether in the articles of association or otherwise, is common in Luxembourg, particularly among international joint ventures and groupings that use a Luxembourg company structure to promote mutual business activities.⁴⁶

In this respect, the use of shareholders' agreements of a purely contractual nature is far more common than providing for relevant provisions in the articles of association. Since the amendment of the Companies Act in 2016, the use of shareholders' agreements is now explicitly recognised in Luxembourg law. The Companies Act does not state that these types of arrangements need to be limited in time. However, it does set out three types of voting arrangements that are null and void: (1) a shareholders' agreement that violates the provisions of the Companies Act or that is contrary to a company's corporate interest; (2) an undertaking by a shareholder to vote in accordance with instructions given by the company itself, a subsidiary or any corporate organ of such entities; and (3) an undertaking by a shareholder to those same companies or corporate organs to approve proposals made by the company's corporate bodies.⁴⁷ If votes are cast at a general meeting of shareholders pursuant to an invalid voting arrangement, the votes shall be considered null and void along with any resolutions taken, unless the votes did not affect the final outcome.⁴⁸ While the use of shareholders' agreements does allow for discretion and flexibility, any compulsory implementation of this type of arrangement remains at risk.

Benefits for long-term shareholders

The Companies Act does not provide for any specific benefits (e.g., extra votes or dividends) for long-term shareholders, although such facilities may be agreed upon in a shareholders' agreement or incorporated into the articles of association, or both.

Shareholder approval of board decisions

While the Companies Act does not set out any specific areas in which board decisions must be approved by the shareholders, the articles of association of the company may provide that all or certain board decisions must be ratified by the shareholders. It is, however, quite uncommon in listed entities for the board to need approval or seek ratification of its decisions that do not fall in the scope of statutory shareholder rights.

45 Article 5 of the Squeeze-out Act.

46 For further analysis on minority shareholders rights, see also Marc Elvinger, 'Les minorités en droit des affaires: rapport luxembourgeois', *Annales du droit luxembourgeois*, No. 15 (2005).

47 Article 450-2(1) of the Companies Act.

48 Article 450-2(2) of the Companies Act.

ii Shareholders' duties and responsibilities

Controlling shareholders' duties and liability

All shareholders have certain obligations by law, including the payment of shares, a proportional contribution to any losses suffered by the company and an obligation of loyalty.

In addition, the controlling shareholders are notably prevented from dictating or imposing an increase of the other shareholders' obligations without their prior consent, although such principle has been considerably attenuated by the Squeeze-out Act, which granted the right to force the acquisition of shares held by minority shareholders to shareholders controlling at least 95 per cent of the share capital.⁴⁹

Institutional investors' duties and best practice

While institutional investors must bear in mind potential reputational repercussions relating to their investments, there are no particular duties imposed specifically on institutional investors and no requirement for institutional investors to specifically consider third-party impacts in their investment decisions. However, a number of Luxembourg-based investors have signed the United Nations-supported Principles for Responsible Investment⁵⁰. The first of these six principles is to incorporate environmental, social and corporate governance considerations into investment analysis and decision-making processes. Furthermore, a growing number of investors – while not being signatories to the Principles for Responsible Investment – are taking the private initiative to take such risks into account.

Code of best practice for shareholders

Luxembourg has no official code of best practice for shareholders, although companies may draw up internal codes of best practice for their shareholders.

iii Shareholder activism

Shareholder activism is not a defined notion under Luxembourg law, and neither derivative actions nor proxy battles are common practice in Luxembourg.

iv Takeover defences

Takeover bids are covered by the Luxembourg Takeover Bid Act.⁵¹ The scope of this act is limited to companies whose shares are traded on a regulated market in one or more Member States of the European Union. Although Luxembourg law admits the principle of defensive measures, there has been no case law specifically covering the question as yet. In implementing any defensive measures, the board has an obligation to act in good faith with respect to the shareholders' interest.

In the absence of a specific provision in a company's articles of association requiring shareholder approval, the board may adopt defensive measures (e.g., issuing new shares within

49 Article 5 of the Squeeze-out Act.

50 Further information available at www.unpri.org. The principles are an investor initiative in partnership with the United Nations Environmental Programme Initiative and the United Nations Global Compact.

51 Act of 19 May 2006 implementing the Directive 2004/25/EC, as last amended by the Act of 18 December 2015.

the limits of authorised capital or selling key assets) without the approval of the shareholders, provided that these measures are taken in the best interests of the company. The board may not prohibit the shareholders from accepting an offer.

It should be noted, however, that measures aimed at frustrating bids in the long term are not generally deemed to be admissible under Luxembourg legislation. It would, therefore, not be possible to repeat defensive measures whenever the bid is repeated or to take defensive measures that have a long-term effect.

Shareholder and voting rights plans, and similar measures

As a general rule, any increase of a Luxembourg company's share capital is decided upon by the general meeting of shareholders. However, the articles of association of a Luxembourg public limited liability company may authorise the board of directors to increase the share capital up to a designated amount in one or more instalments.⁵² The authorisation to do so is only valid for a period of five years, but may be renewed by the general meeting of shareholders.⁵³ As an inducement for an existing shareholder to purchase more shares, it may be decided to abandon any payment of share premium. Beyond that, there is no possibility for a company to offer a discount on the par value of shares to be issued.

White knight defence

In Luxembourg practice, the board of any company that is the subject of a takeover bid may seek out a third party with the purpose of such party making a counter-offer that is more favourable to the company. It can do so without the need for approval by the company's shareholders.

Staggered boards

Directors of a Luxembourg public limited liability company shall be appointed for a term of office that may not exceed six years. However, directors may be removed from office by the general meeting of shareholders at any time and without stating reasons.⁵⁴ As a result, a staggered board does not constitute a major obstacle for a hostile acquirer holding sufficient shares to make changes to the composition of the board.

v Contact with shareholders

Pursuant to the Shareholder Act, listed companies must give at least 30 calendar days' notice before holding a meeting⁵⁵ (notwithstanding particular requirements under the Takeover Bid Act). By doing so, Luxembourg's parliament has imposed a longer notice period than the 21-day notice period required under Directive 2007/36/EC.⁵⁶ Should the quorum not be met at the first meeting, a second meeting must be convened at least 17 calendar days before

52 As a result of the entry into force of the Luxembourg Act of 10 August 2016, the articles of association of Luxembourg private limited liability companies may now also include an authorisation to the board of managers to issue shares, provided that the shares so issued are either issued to existing shareholders or to a third party that has been approved in accordance with the law.

53 Article 420-22 of the Companies Act.

54 Article 441-2, fourth Paragraph of the Companies Act.

55 Article 3(1) of the Shareholder Act.

56 Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies.

the meeting is held.⁵⁷ The convening notice must be published in the electronic compendium of companies and associations, a Luxembourg newspaper and other media in a manner that ensures the effective distribution of the information to the public throughout the European Economic Area.⁵⁸ In the event that all the shares are registered, convening notices may be sent by registered letter to the shareholders, members of the board (or the management board and the supervisory board) and the statutory auditors. The Shareholder Act requires that, in addition to the agenda, date and place of the general meeting to be held, convening notices must also include: (1) a clear description of the shareholders' rights to put items on the agenda and to table draft resolutions, the procedure for voting by proxy and a form to be used for such purpose and, if provided for in the company's articles of association, the procedure to vote by electronic means; (2) the postal and email addresses that can be used to obtain documents in relation to the meeting; (3) where applicable, a copy of the 'record date' as defined by the Shareholder Act (i.e., the date by which shareholders must register their shares in order to participate and vote at the general meeting). The date for listed companies is set at midnight CET on the 14th calendar day before the meeting. The shareholder must notify the company at the latest by such date of its intention to participate in the meeting; and (4) the company's website address, which must contain all of the above information, as well as a full copy of the draft resolutions.⁵⁹

The Shareholder Act and the Companies Act allow distance voting by shareholders in advance of the meeting, provided that the company expressly recognised this possibility and has outlined the related requirements in its articles of association. The Shareholder Act details the content of the ballot paper, which must include, *inter alia*, the full identity of the shareholder, the content of the vote cast in advance, the agenda of the meeting and the deadline before which the ballot paper must be received.⁶⁰

The Shareholder Act imposes that proxy voting be offered to shareholders, under certain conditions, with the proxy holder having the same rights as the shareholder. The company has no obligation to verify that the proxy holder votes in accordance with the shareholder's instructions.⁶¹

VI OUTLOOK

While there are not many publicly known campaigns of activist shareholders in Luxembourg, there is a trend in Luxembourg law for more transparency, accountability and increased shareholder rights, especially in listed companies, as described in more detail above. Whether the changes in Luxembourg law will lead to more public campaigns led by activist shareholders, time will tell. It is certain that boards will, however, have to be aware of potential involvement and action from their shareholders.

57 Article 3(1), second Paragraph of the Shareholder Act.

58 Article 3(1), second Paragraph of the Shareholder Act.

59 Article 3(3) of the Shareholder Act.

60 Article 6 of the Shareholder Act.

61 Article 8 of the Shareholder Act.

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