

EMLE – Corporate Governance and Finance – 2019

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Course description

After a brief introduction, this course takes off with a law and economic approach of how a corporation is organized making use of the corporation's main characteristics: Legal personality, Limited liability, Transferability of shares, Delegated management, and Investor ownership. It will provide all students with a different undergraduate to be familiarized with both the (legal) structure of the corporation as well as the economic view of the corporation.

Next in the second part, the lectures explore corporate governance. First the different perspectives on corporate governance are sketched, as well as the structure and position of corporate governance codes in a comparative legal perspective. The recent developments of corporate governance will provide students with insights in the current corporate practices. The majority of the second part will develop the different governance techniques developed to mitigate corporate conflicts. In particular the conflicts of interests between management and shareholders and the conflicts between majority and minority shareholders will be studied. Mechanisms that mitigate these conflicts are inter alia empowerment of shareholders (including the important corporate governance line of research of 'law and finance'), independent directors, board diversity, board committees, remuneration schemes, the market for corporate control and takeovers, disclosure of information, internal control mechanisms, external audit, squeeze-outs, etc. These mechanisms addressing the alignment of the different incumbents' interests will be inspected in more detail. Each of the instruments will be legally addressed as well as economically assessed making use of a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats).

Next, in the third part, the lectures target corporate finance. First, it will address the external financial reporting of the company providing insight in the financial position of the company. Second, the time value of money, net present value, and the debt and equity structure are presented. Third, the relationship between risk and return in a perfect market will be explored. Forth, the corporate finance part is emphasizing the valuation of companies. In particular the most important valuation techniques will be studied: the simple valuation methods, multiples and discounted cash flow.

Course schedule and compulsory reading

Part 1: the corporation and its five characteristics

Reading: R. Kraakman e.a., *The anatomy of corporate law*, OUP 2017, pp.1-28
(http://papers.ssrn.com/sol3/papers.cfm?abstract_id=568623);

Part 2: corporate governance

2.1: introduction to corporate governance

Reading: K. Hopt, *Comparative Corporate Governance: The State of the Art and International Regulation*, 2010, available at: <http://ssrn.com/abstract=1713750>, pp. 1-19. (published in 2011 in *The American Journal of Comparative Law*, vol. 59, Winter 2011)

2.2: Resolving corporate conflicts

2.2.1. board governance

Reading: Davies, Paul L. and Hopt, Klaus J., *Boards in Europe – Accountability and Convergence* (April 1, 2013). ECGI - Law Working Paper No. 205/2013; Available at SSRN: <http://ssrn.com/abstract=2212272>, pp. 1-45, (*American Journal of Comparative Law* 61 (2013) 301-375; A. Ciaveralla, *board diversity and performance across Europe*, Consob working paper, December 2017, 36 p. (<http://www.consob.it/documents/46180/46181/wp85.pdf/b9172933-785c-4996-b065-3a04aacff33f>

2.2.2.: market for corporate control

Reading: S. Davidoff, *Takeover Theory and the Law and Economics Movement* (April 4, 2011). *Research Handbook on the Economics of Corporate Law*, Claire Hill, Brett McDonnell, eds., Edward Elgar, 2011-2012. Available at SSRN: <http://ssrn.com/abstract=1802733>

2.2.3.: shareholder empowerment

Reading: Katelouzou, D. and Siems, M., “Disappearing Paradigms in Shareholder Protection: Leximetric Evidence for 30 Countries, 1990–2013”. *Journal of Corporate Law Studies* 2015, 15: 127-160 (https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp467.pdf). (Highly recommended reading: R. La Porta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny, “Law and Finance”, *Journal of Political Economy* 1998, pp. 1113-1134 en 1151-1152 (<http://faculty.som.yale.edu/zhiwuchen/EmergingMarkets/LawAndFinance.pdf>); R. La Porta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny, “Legal Determinants of External Finance”, *Journal of Finance* 1997, pp. 1131-1150 (<https://scholar.harvard.edu/shleifer/files/legaldeterminants.pdf>)

Assignment 1

2.2.4.: executive remuneration

Reading: C. Frydman and D. Jenter, *CEO Compensation*, *Annual Review of Financial Economics*, 2010, nr. 2, pp. 72-102, <http://www.annualreviews.org/doi/pdf/10.1146/annurev-financial-120209-133958>; L. Bebchuk and J. Fried, *Executive Compensation as an Agency Problem*, *Journal of Economic Perspectives*, 2003, pp. 71-92. <http://www.law.harvard.edu/faculty/bebchuk/pdfs/2003.Bebchuk-Fried.Executive.Compensation.pdf>

Assignment 2

2.2.5: Other instruments: information, audit and others

Reading: R. La Porta, F Lopez-de-Silanes and A. Shleifer, "What works in securities law", *Journal of Finance* 2006, 1-32; https://scholar.harvard.edu/files/shleifer/files/securities_jof.pdf

Part 3: Topics of Corporate Finance

Recommended Reading: any corporate finance textbook

Lecturing method

- Lectures: The course content will be introduced in interactive lectures. Students are expected to participate actively in class, express their views and discuss controversial issues. Prior reading of the material is absolutely essential. Slides will be provided prior to each session.
- Break-out sessions: in order to stimulate the debate, some break out sessions (depending on the available time) are organized. These are 20-30 minutes group work in class, in which students will be asked to answer questions on a specific topic relevant to the study session. Students' preparation, which must be handed in, will be followed by a class discussion.
- Assignments: two research papers (can be prepared in group) are required and debated during one of the lectures.

Expected learning outcomes

Students are expected to be able to provide insights in the framework within which governance practices evolve (in a comparative perspective) and to have (advanced) insights in the background to existing European and member state corporate governance regulation, including specific corporate governance features like independent directors, shareholder rights, audit committees, remuneration schemes and so on.

Students acquired the skills to critically evaluate governance arrangements and comment on the relationship between legal rules and economic realities, obtained the ability to analyse and comment on principles of corporate governance and the ability to draft other principles and rules related to corporate governance and the internal governance of the firm.

On completion of the course the student are expected to be able to provide insights in corporate finance related to the financial statements, time value of money, net present value, CAPM and the debt and equity structure.

Students acquired the skills to critically assess the valuation of company, and obtained the ability to analyse and comment on the valuation techniques used to identify the value of the corporation.

Method of assessment

Written closed-book exam (70%); two assignments (each accounting for 10% of the final mark); break outs (10%)

Retake: written closed-book exam (100%) related to the presentations and the reading materials (see lecture schedule)