

## Shareholding Cascades :

# The Separation of Ownership and Control in Belgium

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**Abstract :** This paper analyses the control of Belgian listed companies. The analysis reveals that control of listed companies in Belgium is highly concentrated. Business groups, holding companies, and voting pacts, play an important role in bringing about this concentration. The main characteristics of the Belgian corporate ownership and equity market can be summarised as follows : (i) few - merely 140 - Belgian companies are listed on the Brussels stock exchange, (ii) there is a high degree of ownership concentration with an average largest direct shareholding of 45%, (iii) holding companies and families, and to a lesser extent industrial companies, are the main investor categories whose share stakes are concentrated into powerful control blocks through business group structures and voting pacts, (iv) control is levered by pyramidal and complex ownership structures and (v) there is a market for share stakes.

**Keywords:** Ownership, Control, Corporate Governance

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## 1. Introduction

Different degrees of ownership concentration reflect the trade off between, on the one hand, the diversification advantage of investing in many assets and, on the other hand, the (private) benefits of controlling a firm. As Franks and Mayer (1995) point out, it is puzzling that the resolution of this trade off has taken such a variety of forms in different countries. They classify the ownership structures into two categories: insider and outsider systems. The equity markets of this first system are characterised by few listed companies, an illiquid capital market where ownership and control is infrequently traded and complex systems of intercorporate holdings. Consequently, these structures are appropriately described as *insider or entreprise-oriented systems* as it is the corporate sector or families and individuals who hold controlling interests and outsider investors, while able to participate in equity returns through the stock market, are not able to exert much control. Continental Europe and Japan fit into this broad classification. In contrast, the Anglo-American system is a market oriented or *outsider system* and is characterised by a large number of listed companies, a liquid capital market where ownership and control rights are frequently traded and few intercorporate holdings.<sup>1</sup> There are few large, controlling shareholdings and these are rarely associated with the corporate sector itself. Diversified shareholdings are useful from the point of view of risk reduction but discourage active participation of investors.

The main characteristics of the Belgian corporate ownership and equity market can be summarized as follows : (i) few - merely 140 - Belgian companies are listed on the Brussels stock exchange, (ii) there is a high degree of ownership concentration with an average largest direct shareholding of 45%, (iii) holding companies and families, and to a lesser extent industrial companies, are the main investor categories whose share stakes are concentrated into powerful control blocks through business group structures and voting pacts, (iv) control is levered by pyramidal and complex ownership structures and (v) there is a market for share stakes. Properties (i) to (iv) imply that Belgium can be portrayed as a prototype of the 'insider system'. However, typical for Belgium is the importance of cascades of holding companies which are used to lever control.<sup>2</sup> Consequently, an ultimate investor can control a target company while holding relatively few cash flow rights.

## **2. The separation of ownership and control in Belgium : the legal aspects.**

### *2.1 Corporate landscape : the prevalence of the limited partnership (SPRL) and the stock corporation (SA).*

Belgium counts approximately 220,000 firm, most of which are small with half of them counting less than five employees or less than BF 10 million of total assets. Two legal forms dominate: the Société Privée à Responsabilité Limitée or the Besloten Vennootschap met Beperkte Aansprakelijkheid (SPRL or BVBA, a limited liability partnership) and the Société Anonyme or Naamloze Vennootschap (SA or NV, a stock corporation). There are about 90,000 companies of each type<sup>3</sup>. Tables 1a, 1b and 1c present an overview of the legal corporate forms, their capital requirements, number of companies, equity transfer procedures and accounting information disclosure rules.

[insert Tables 1a, b, c about here]

SPRLs are the most numerous among small firms (99% of SPRLs are firms with less than BEF 100 millions of total assets). Their ownership certificates are nominative and the transferability of the certificates is subject to restrictions, for example the agreement of the other partners. Most large firms are SAs (84% of firms over 100 millions of total assets are SAs). Their distinguishing feature is the possibility of issuing bearer shares with no restriction on their transferability.

There are currently approximately 140 Belgian registered firms that are listed on the official market of the Brussels Stock Exchange. They are of various sizes and belong to all sectors of the economy. Holding companies account for 23% of the market capitalisation, while electricity and gas companies represent 20% of the capitalisation on the Brussels Stock Exchange. Other sectors with a high market capitalisation are banks and financial services companies (14%), chemical companies (9%) and insurance companies (8%). Market capitalisation is highly concentrated among a few large firms: the Top 10 account for 50% of the total market capitalisation, while the Top 50 represent 95% of the market capitalisation. Turnover is low for smaller listed firms: the BEL20 market index, which includes 20 firms, accounts for 83% of the total market turnover.

## *2.2 Ownership disclosure legislation.*

### The notification rules

Up to 1989, little was known about the ownership structure of companies listed on the Belgian stock exchanges, given the general use of bearer shares and the lack of ownership disclosure obligation. The take over battle in 1988 between the French Compagnie Financière de Suez and the de Benedetti group for the largest Belgian holding company, Generale Maatschappij van België (Société Générale de Belgique), highlighted the problems due to informational uncertainty regarding shareholdings and voting rights. The EU Transparency Directive<sup>4</sup> provided the framework in which new legislation concerning corporate control and ownership could be initiated. An Ownership Disclosure Law<sup>5</sup> was introduced in 1989 and amendments to the company law with regard to takeovers' were made in 1991.

The Ownership Disclosure Law requires all investors, both individuals and companies, to reveal their share stakes in those companies governed by Belgian law, all or part of whose securities conferring voting rights are officially listed on a stock exchange located in a Member State of the European Union. In spite of the legislation's title, the legislation is about the declarations of important holdings of voting rights and not about holdings of capital. Notification is obligatory if a shareholding equals or exceeds a threshold of 5 percent<sup>7</sup> of voting rights. Furthermore, shareholders have to declare any increases and decreases in ownership and their new ownership position if their stake exceeds a multiple of 5 percent of the voting rights or falls below such a threshold.<sup>8</sup> For instance, a company that has revealed that it owns a stake of 11 percent will have to notify the Banking Commission<sup>9</sup> again once this ownership stake reaches 15 percent or more, or decreases below the 10%-threshold.

### Real and potential voting rights

The notification percentages refer to real and potential voting rights. As a result, ownership of securities convertible into shares (convertible bonds, warrants, etc) is treated similarly in terms of disclosure as vote bearing shares in the company.<sup>10</sup> So, when investors make voting rights declarations, they include: (i) the percentage of the actual total voting rights they own, proportional to all the actual voting rights outstanding, (ii) the potential voting rights, as a percentage to the aggregate of all potential voting rights and (iii) the percentage of cumulative actual and potential

voting rights in the company based on the aggregate number of the voting rights associated with all outstanding shares and convertible instruments.<sup>11</sup>

#### Indirect ownership, investor groups and voting pacts.

The transparency legislation does not only apply to natural and legal persons owning voting rights directly, but also to those investors who control voting rights indirectly via a pyramid structure of intermediate companies.<sup>12</sup> Investors are obliged to reveal whether they are affiliated to an investor group of companies or whether they act ‘in concert’<sup>13</sup> with other investors. Throughout the paper we distinguish among direct shareholdings, group blocks and voting blocks. Group blocks are the sum of the direct shareholdings controlled by the same ultimate investor (an individual, a family, an industrial company). Voting blocks consist of direct shareholdings or group blocks of which the (ultimate) investors have made voting agreements. If the real or potential voting rights of the individual investor, the group block or the voting block exceed or fall below the notification thresholds, the cumulative and individual direct and indirect ownership positions and changes in voting rights should be disclosed. The Commission for Banking and Finance suggests that the ultimate controlling shareholder of a business or investor group assume notification responsibility for voting rights of its own direct and indirect holdings and for those share stakes held by investors this ‘reference shareholder’ is affiliated to or acts in concert with.<sup>14</sup> In the case of voting pacts, the same rules as for business groups apply.

In addition, once the stake of an investor (or of the investors belonging to the same investor group) reaches 20 percent of the voting rights of the company or falls below this threshold, the strategic policy with regard to the target has to be declared to the Banking Commission and the target.<sup>15</sup>

#### Notification Process.

The investor who purchases or sells shares (the voting rights) or potential voting rights has to disclose his control position and the changes herein to the target company and to the Commission for Banking and Finance in Brussels at the latest on the second working day after the transaction, if a notification threshold has been transgressed. Standardised sheets guarantee homogeneity in the declarations. Apart from the number and percentage of real and potential voting rights, a notification sheet reveals the identity of the investor, the investor’s business group (if appropriate), voting pacts, policy statements (20% rule) and the date referring to the change in voting rights.

The target company who has been notified about changes in ownership by substantial investors, has a maximum of one working day after disclosure to pass on this information to the Documentation and Statistics Department of the Brussels Stock Exchange (Maertens 1994). This department updates its on-line ownership database DBPart, makes this information available *ad valvas* on the trading floor (*parquet*)<sup>16</sup> and prepares the information for publication in the *Cote de la Bourse*<sup>17</sup>, a Stock Exchange publication that is inserted in the two Belgian financial newspapers, *De Financieel Economische Tijd* and *L'Echo de la Bourse*. The same notification timing applies to disclosure of investors' policies (20% ownership rule). Moreover, the target company will have to publish this voting rights information in its annual report.

An investor's failure to disclose a substantial shareholding may lead to an interdiction to the investor in question to participate to the annual meeting, to a cancellation of the annual meeting which has been called for, to a suspension of the exercise of all or part of the rights pertaining to the securities for a certain period and even to liability to penalties<sup>18,19</sup>. The voting rights of recently acquired major shareholdings (5% and more) can only be exercised 45 days after notification.<sup>20</sup>

#### *Ownership disclosure of non-listed companies*

The EC Directive and the subsequent national legislation only refer to transparency of listed companies. Still, Belgian law also requires every corporate shareholder of a non-listed Société Anonyme (NV) registered in Belgium, to notify this company as soon as this shareholder holds more than 10% of the total votes of one category of shares. When the notification decreases to less than 10%, a similar notification has to take place. However, in practice, this rule is not strictly respected (Becht, 1997). There is still an indirect way of gathering partial information on shareholdings in non-listed public firms. All SAs (NVs), both listed and non-listed, are obliged to publish in their annual report, the content of their shareholding portfolios in other firms, be it Belgian or foreign.

The shares of private firms (like the SPRL or BVBA) are always nominative and the owners are registered in a register of partners. To the public, the ownership structure is not accessible; only the partners, fiscal authorities and third parties having an interest in the firm, like debtors or creditors, can consult the register.

### 2.3 Voting rights dilution and restrictions, and the rights of the minority shareholders.

In principle, the general assembly takes decisions based on a simple majority of the voting rights. Since 1991, the balance of corporate power has shifted to the controlling shareholders whom have been given legal instruments to entrench their position in the company and to protect themselves against undesired takeovers. Anti-takeover instruments, like share repurchase schemes or issuance of warrants, can be installed by the board of directors at any moment in time if the shareholders have given authorisation to the board. Such an authorisation remains valid for a maximum of 5 years but can be reinstated for a similar period (Wymeersch 1994a).<sup>21</sup> Such measures have further reduced the likelihood of hostile takeovers in Belgium.<sup>22</sup>

However, to provide more protection to small shareholders a supermajority of 75 percent of the voting rights voted at the general assembly, is needed with regard to decisions about changes in the acts of incorporation, increases of the equity capital, limitations or changes in the preferential rights of existing shareholders to purchase shares in new equity issues, changes in the rights of different classes of shareholders<sup>23</sup>, repurchases of shares and changes in the legal form of the corporation (Lievens 1994).

Since 1991, minority shareholders or a group of minority shareholders owning at least 1 percent of the equity capital or shares with a value of not less than BEF 50 million, can appoint one or more experts who can scrutinise the company's accounting and its internal operations.<sup>24</sup> The appointment of experts is conditional on indications that the interests of the company have been violated. Shareholders owning at least 1 percent of the votes can initiate a *minority claim* against the directors for the benefit of the company, if it can be proven that the directors have managed or supervised the company poorly and if the minority shareholders have voted against the directors' *discharge*<sup>25</sup> at the annual meeting. For instance, a minority claim would be justified when directors ensured that the company paid out benefits to large shareholders they represent at the detriment of the company.<sup>26</sup>

Another important change, since the law of 1991, is the abolition of automatic voting rights restrictions.<sup>27</sup> This abolition was motivated by the fact that the restrictions could be easily evaded by redistributing the shares to family members, friends and subsidiaries. Still, as in Germany, individual companies can still apply voting right restrictions by including such clauses in the acts of incorporation. While automatic voting restrictions are abolished, voting agreements among shareholders for (renewable) periods of 5 years are allowed since 1991 if these agreements do not limit the responsibilities of the directors or are used to create different classes of voting rights.

#### 2.4 Limitations on cross-shareholdings

Belgian law restricts cross-shareholdings between two firms to a maximum of 10% of the voting capital. This rule applies for two independent firms when one of the two firms has its headquarters in Belgium. It applies also between a mother firm and its subsidiaries: the subsidiaries taken together may not hold more than 10% of the mother's voting capital. Furthermore firms are obliged to liquidate the cross-shareholdings acquired in violation (or ignorance) of the law. Shares have to be liquidated within one year and the votes attached to the shares are suspended before the alienation.

#### 2.5 Ownership cascades and pyramids as main separation devices.

A substantial number of share stakes are held by other companies which in turn are held by other shareholders. Such cascade or pyramidal ownership structures have been typical in the Belgian corporate landscape, but are beginning to disappear. For example, the pyramid structure used by the French Suez group to control the Belgian electricity utility Electrabel is disappearing. Suez has started to delist its Belgian utility interests and to convert them into ordinary, closely held subsidiaries.

However, some important pyramidal structures still exist, most notably the Belgo-Canadian Frère-Desmarais group (see Appendix). A series of holding companies and legal instruments is used to control a vast industrial empire with relatively small cash-flow stakes. The structure has a double vertex. On the European side Baron Albert Frère presides over a control chain that involves a family holding, two non-listed Belgian holdings, a listed Belgian holding and a Dutch holding company. On the Canadian side, Paul Desmarais Sr. controls three companies that control the Power Corporation of Canada and the Power Financial Corporation, two listed companies. Through a series of Canadian, Dutch, Belgian and Swiss holding companies the partners control a number of important Belgian and French companies.

Previous examples clarified that the true owners of the Belgian sample companies are mostly not the direct shareholders (at ownership level 1), but that control is exercised by an ultimate shareholder on a higher ownership tier in the pyramid. It is important to identify these *ultimate voting blockholders* so that the percentages of voting rights held by direct or first-level shareholders controlled by the same ultimate investor can be aggregated into investor groups. Such investor group is named after and classified according to the identity and shareholder class of the ultimate



shareholder.<sup>28</sup> Fortunately, the Large Holdings Directive forces such blockholders to declare their voting power, not matter how “distant” they are from the listed company where they cast the votes.

### 3. Data collection

Ownership data were collected for the period 1989, the adoption of the transparency legislation, until 1995. In 1989 and 1995, respectively, 186 and 140 companies were listed<sup>29</sup>. 40% of the Belgian listed companies are holding companies with multi-industry investments, 13% are in the financial sector (banking, insurance and real estate) and 47% are industrial and commercial companies.

Data on the ownership structure over the period 1989-1995 were collected from the Documentation and Statistics Department of the Brussels Stock Exchange, which maintains a daily updated database BDPart (Bourse Data Participations) of the shareholding structure of Belgian listed companies. BDPart provides data on the first level of shareholding (direct ownership) in all Belgian listed companies, such as the names of the investors, the number of shares declared, number of shares issued and the percentage of ownership. Apart from voting rights linked to the shareholdings, BDPart also displays potential voting rights linked to securities that will represent voting rights when converted or exercised. Previous ownership positions in the BDPart database are overwritten once new ownership information becomes available. To capture a company's ownership position at the end of its fiscal year since 1989 and changes in shareholdings during each year, about 5000 hardcopy Notifications of Ownership Change from 1989 till 1994 were consulted. Apart from details on voting rights, the investors' status (independent, affiliated or acting in concert with other investors) was compiled from the Notifications in order to construct the shareholdings of business groups and voting pacts. With this information about major direct shareholdings and indirect control, the multi-layered ownership structure was reconstructed for each company over the period 1989-1994. The shareholding data from BDPart and the Notifications of Ownership Change over the period 1989-1994 were verified with ownership data of the database of the National Bank which is based on annual reports.<sup>30</sup> For indirect ownership data of 1995, a more elaborate methodology has been used. We used the CD-Rom ‘BNB’, produced by Bureau Van Dijk with tapes supplied by the Central Bank, to gather all shareholdings that Belgian firms are required to report to the Central bank if such a shareholding exceeds 10% of the voting capital of the target firm. By collecting all the large investments of Belgian companies, we reconstructed the ownership pyramid of Belgian companies.

The yearbooks of *Trends 20,000*, which comprise industry sector classification and financial data for most listed and non-listed Belgian companies, were used to classify all Belgian investors into the following categories: (i) holding companies, (ii) banks, (iii) institutional investors, (iv) insurance companies, (v) industrial companies, (vi) families and individual investors, (vii) federal or regional governments and (viii) real estate investors. Foreign companies owning a large share stake in Belgian companies were classified with information from *Kompass*.

As disclosure is only obligatory for shareholdings exceeding 5% (or 3% if the company so chooses) our ownership data are truncated. Still, we were able to collect many shareholdings of less than 5% because, when an investor with a small shareholding belongs to an investor group or is involved in a voting pact, his share stake will be disclosed as well. Furthermore, the potential voting rights, referring to warrants and convertibles are to be disclosed such that, along with these potential voting rights, small stakes or real voting rights are also disclosed. For five companies, the stock exchange did not receive any ownership notifications. These companies were not included in our 1995 database<sup>31</sup>.

#### **4. Direct shareholdings, Group blocks and Voting blocks.**

The Belgian transparency legislation requires investors not to disclose cash flow rights, but deals with voting rights. Still, the discrepancy between direct share stakes and voting rights is rather small as the principle of one-share-one-vote is usually upheld within one ownership tier. Direct share stakes are shareholdings on the first ownership tier and belong to an single shareholder. Some of these direct share stakes belong to group blocks as they are controlled by an ultimate shareholder who may use a pyramid of intermediate companies to control several direct shareholdings. Finally, there are also voting coalitions between shareholders or group blocks, which we call voting blocks. Of the 140 companies listed on the Brussels Stock Exchange, for 135 companies there was at least one ownership notification in 1995. Overall, there are 269 notified voting blocks, 431 group blocks and 551 direct shareholdings. Table 2 shows that the average listed firm has 5 direct shareholders, 3 group blocks and two voting blocks. Eighty percent of the voting blocks count 2 to 5 shareholders. In three quarters of the cases a group block corresponds to a voting block.

[Insert table 2 about here]

#### 4.1 Direct shareholdings

Figure 1 shows the direct voting power of the largest and subsequent share stakes of the 135 listed companies in 1995. All shareholders are considered in isolation (without considering the fact whether they take part in a voting block). The largest shareholder holds on average 45% of the votes (see also table 3) while the second largest owns 12.8%. This confirms that Belgian direct ownership is highly concentrated. In order to get majority control of 50%, the largest shareholder ought to form a coalition with the second or third largest shareholders. Still, in practice, atomistic shareholders do not usually exercise their voting rights on the annual meetings such that the largest average shareholder might a de facto absolute control.

[Insert figure 1 about here]

[Insert table 3 about here]

The histogram of the largest direct share stakes of Figure 2 exhibits peaks at the 25% and the 50% thresholds, indicating the importance of blocking minorities and majority control respectively. There are relatively few direct voting blocks in the range 35-50%. In Belgium, the mandatory bid rule requires shareholder who accumulate a shareholding which leads to a change in control at a price higher than the market to make a tender offer for the other outstanding shares. In practice, it is the court that can decide whether a control change has taken place or not. If a stake of about one third of the voting rights is acquired, in most cases this is regarded as a control change. Therefore, either companies deliberately remain underneath the 33.3% threshold or acquire more than 50% of the voting rights. The mandatory bid threshold might also explain why there are relatively many share stakes of more than 66.66% of the voting rights

[Insert figure 2 about here]

On average, the sum of the direct share stakes held by large shareholders (who own at least 5% of the outstanding shares) amounts to more than 65% in 1994 (Table 4). Cumulative direct ownership is higher, almost 70% in the financial sector, and around 65% for both holding companies, and the industrial and commercial companies. It is clear that the concentrated ownership structure does not facilitate hostile takeovers if the acquirer does not initially have a large toehold. Panel A of Table 3 in the appendix shows that a coalition of the largest three owners is needed for absolute control; they own on average more than 59%.<sup>32</sup>

[Insert table 4 about here]

#### 4.2 Voting blocks<sup>33</sup>

The largest voting blocks in listed companies control, on average, 56% of the voting rights, giving them absolute majority control (Figure 3). The second and third largest voting blocks are much smaller with combined share stakes of respectively 6.6 and 4.5%. The histogram (Figure 4) with the largest direct share stakes which are controlled by a voting block shows peaks at the 50-60% level and the 65-70% level reflecting the absolute majority threshold and the qualified majority level (2/3 of the votes) which is required for certain decisions at the annual meeting. In only 17% of the listed companies, a voting block owns a supermajority (75% or more), a voting rights threshold allowing the voting blockholder to change the acts of incorporation, including voting rights (see also Figure 5).<sup>34</sup> Table 5 details the most important blockholders by name and Table 6 by type. For example, the Generale Maatschappij/Société Générale controlled by the French holding Suez-Lyonnaise des Eaux, is present as a voting block holder in 16 listed companies and controls an average voting rights package of over 50% (Table 5).

[insert Figures 3, 4 and 5 about here]

[insert Tables 5 and 6 about here]

The evolution of ownership in concentrated companies with a shareholding of at least 25%<sup>35</sup> since 1989 is given in Table 7. Ownership concentration of the largest direct shareholding has increased slightly over a 6 year period since the transparency legislation. Considering only those companies with a largest shareholding of more than 25%, the average largest direct shareholding has increased from 55% to about 58%. Ultimate levered control is defined as the product of the intermediate shareholdings between the sample company and the ultimate controlling shareholder.<sup>36</sup> The average levered shareholding's increase from 38% to almost 42% is largely due to a shortening of the ownership pyramids. All in all, from 1989 to 1994, there have been no substantial changes in the aggregate concentration of ownership in Belgian listed companies. Renneboog (1999) shows that there is an active market in controlling share stakes in Belgium, but given the value of control as reflected in the control premium, share blocks do not tend to get dispersed.

[insert Table 7 about here]

### 4.3 Categories of Shareholders

Table 4 also exhibits the cumulative ownership of the three most important investor classes: holding companies, families and individual investors, and industrial and commercial companies.<sup>37</sup> From panel A can be concluded that holding companies are the largest direct investors; they hold on average 33% of the shares and account for half of the substantial ownership stakes in Belgian companies. Domestic and foreign holding companies have invested more in the Belgian holding companies than in the industrial and in the financial sector. Direct investment by industrial and services companies totals almost 15% (panel A) and is focused on other Belgian listed industrial and commercial companies (panel D). Families' direct investment is of less importance with an average stake of about 4%. The table shows not only ownership at the direct level but also the average stake held by voting blocks, where the voting blocks (labelled 'ultimate' in the table) are classified into shareholder categories based on the identity of the ultimate controlling shareholder.

#### Holding companies.

The analysis on the basis of voting blocks reveals that, although holding companies remain the most important shareholder class in Belgian listed companies, their average cumulative shareholding on an ultimate control basis decreases to 26.7% from an average direct shareholding of 32.7 (panel A, Table 4). The differences are explained by the fact that family controlled holding companies are now classified according to the identity of the ultimate investors, namely, families and individuals. Belgian holding companies are substantial investors in all sectors: in other Belgian holding companies (panel B), in the financial sector (panel C) and in industrial and commercial companies (panel D). The importance of the Belgian holding companies and the lack of large share stakes held by banks should be understood in its historic framework : banking and investment business had to be separated by law in 1934. This resulted in the creation of large financial holding companies which became the major shareholders in the financial institutions and diversified their investments over a wide gamut of industrial and commercial sectors. Pyramidal ownership structures allowed holding companies to exercise levered control with relatively small share stakes (an example is provided in the appendix).<sup>38</sup>

#### Industrial and commercial companies

The average shareholding held by industrial and commercial companies decreases from a direct shareholding of 14.6% to a shareholding of 10.8% as some companies are controlled by either

holdings or families and individuals. Industrial and commercial companies seem more inclined to hold substantial stakes in other industrial firms (panel D).

#### Family shareholders.

Belgian families own a voting rights majority in 15% of the industrial and commercial companies and hold 26% of the shareholdings of at least 25%. Individual and family investors frequently do not hold shares directly in Belgian listed and non-listed companies, but use intermediate companies as their average concentrated ownership amounts to almost 16%, while direct stakes held by individual and family investors average only 4% (panel A). Family shareholdings are most distinctly present in the ownership structure of industrial and commercial companies (panel D) with an average substantial shareholding of nearly 20%.

#### Financial Institutions.

As of 1934, 'credit institutions' were prohibited from taking share participations in industrial companies. Only since the 1993 Credit Institutions Act<sup>39</sup> which implemented the Second Banking Directive of the European Union, are credit institutions (banks, savings banks and other financial institutions) entitled to hold shares in industrial corporations and holding companies. Currently, credit institutions are allowed to hold up to 60% of their equity in shares of non-financial companies, with a maximum of 15% of their equity capital invested in a single company. There is no limitation with regard to the percentage of the outstanding shares of an individual company a credit institution is allowed to own. In practice, banks still do not invest much in shares of non-financial companies to avoid conflicts of interest :

- According to Belgian law, banks are held liable towards creditors of bankrupt companies, if the banks granted credit to these companies at times when a reasonably prudent banker should not have granted nor maintained the credit. A substantial shareholding in a financially distressed company by a bank might influence that bank's decision with regard to ceasing additional credit.

- Since most banks are controlled by a holding company which might be a substantial shareholder in a company, it is doubtful whether banks would be able to make independent decisions with regard to a shareholding in that company or granted loans.

- Most investment and pension funds are managed by a bank which ensures the distribution of the investment fund's certificates (shares). Legally, investment and pension funds' management

should use the voting rights associated with the shares of a company they have invested in, independent of the managing bank.

### The Government

In principle, the federal state does not invest in listed Belgian companies. But it owns 50% of the shares of the National Bank, of which the shares are listed in the Brussels Stock Exchange, and 50% of the 'public credit institutions'. The role of the public credit institutions has been broadened to that of a bank and these banks have been privatised. The 'public investment companies', owned by the regional governments hold blocks in shares of a few listed companies. Those investments were made either to save ailing companies or to provide small risky companies with growth capital so as to stimulate and support entrepreneurial and industrial expansion. In general, in contrast to France, federal and regional governments have not considered their shareholdings in companies as a long term financial investment. Only in two percent of the listed companies, the state still holds a share stake via the regional investment companies.

### Employee shareholding.

Since 1991, mechanisms of beneficial acquisition of shares by employees have been introduced. In general, employee ownership in most companies remains low. For instance, employees of Petrofina own 5.4% of the shares; in de Bank Brussels Lambert, employees hold 7%; in Creyf's Interim 0.9%; in Desimpel Kortemark 0.5%; in Royale Belge, 0.69% (Wymeersch 1994a).

### Institutional investors.

Belgian institutional investors (insurance companies, pension funds, credit institutions, investment funds and investment companies) usually hold small share stakes (of under 5%), but own in aggregate about 18% of the shares in Belgian listed companies.<sup>40</sup> For instance, the average shareholding of all Bevek/Sicav-investment funds<sup>41</sup> in the 60 most traded Belgian companies, amounted to 4% in 1995 and the average shareholding of pension funds measures about 1.5%.<sup>42</sup> Insurance companies are legally allowed to invest up to 25% of their reserves in shares listed on the Belgian stock exchanges, but owned only about 12% of the Belgian shares over the period 1986-1991. Most institutional investors reinforce the present majority's power by systematically voting in favour of management or, more commonly, by not taking part in the general assembly.

#### 4.4 Foreign shareholder classes

The relative importance of domestic and foreign investors is examined in the last two columns of Table 4. More than 75% of the direct large shareholdings (or an average of 49.4% of the voting rights) are held by Belgian investors, while foreign investors' direct investments account for an average of 16%. This proportion is similar for holding companies (panel B) and the industrial firms (panel D), but for the financial sector, domestic investments are higher with an average of 55% (panel C). When we consider voting blocks, columns 5 and 6 show that foreign investors often use Belgian intermediary companies to control Belgian listed companies. Domestic ownership in a Belgian company amounts to nearly 40%; slightly lower (36%) in holding companies, and somewhat higher (43%) in industrial and service companies. Foreign investors hold about 38% of the substantial shareholdings (or an average of 24.3% of the total number of shares) in Belgian listed companies.

Of the foreign investors, it is primarily the holding companies that hold large share stakes and control with a majority stake in 15% of all the Belgian listed companies.<sup>43</sup> Foreign holding companies invest predominantly in Belgian holding companies, one fourth of which they control with a majority of the voting rights. This way foreign holding companies also indirectly invest in unlisted Belgian companies with shares held in the investment portfolios of Belgian holding companies. Foreign industrial companies prefer Belgian industrial companies as long term investments, while foreign banks and insurance companies are substantial shareholders in the Belgian financial and insurance sector. Foreign institutional investors do not rely heavily on the Belgian stock market.

Although shareholders from a wide variety of countries<sup>44</sup> are present in the ownership structure of Belgian listed companies, the main investors are from the neighbouring European countries. Dutch investors own an average direct share stake of 3.8% and invest predominantly in Belgian industrial and commercial companies. German direct average ownership is low. German industrial companies mainly invested in the concrete industry via e.g. Heidelberger Zement. Investors from Luxembourg own, on average, directly 4.1% of Belgian companies, and have invested mainly in industrial and commercial companies. But, companies from Luxembourg are almost never the ultimate investor and are used as intermediary investment vehicles by e.g. French companies. North American and U.K. shareholders hold large stakes in only 3 companies. Only one large shareholding of a Belgian listed company is Japanese: Ashaki acquired a majority stake in the glass manufacturer Glaverbel. The average French direct average shareholding is higher and close to 4.3%.The single



most important foreign ultimate investors are French; their accumulated substantial shareholdings amount on average to almost 13%. They invest mainly in the Belgian holding companies of which they own an average stake of 19% and in the financial sector in which they hold an average of 14% of the voting rights. Via controlling participations in Belgian large holding companies, French investors control a substantial part - estimated at 30% - of all the listed and unlisted industrial companies in Belgium. In fact, it is the French holding companies, rather than French family investors or industrial companies that have acquired substantial stake of the Belgian listed companies. French insurance companies own significant shareholdings in the Belgian banks and insurance companies.

## **5. Conclusion.**

This chapter has documented how the ownership disclosure requirements have been translated in national law and that ownership is strongly concentrated in Belgium with the largest shareholder owning an average direct stake of 45%. The direct shareholdings are large, but actual ownership concentration is even higher by the formation of group blocks: some ultimate investors control via intermediate (holding) companies. Furthermore, voting blocks are formed by voting coalitions between ultimate investors such that the average largest voting block amounts to 56%.

Institutional investors seldom hold more than 5% of the voting rights, but overall account for about one fifth of the shares. The presence of large foreign shareholders in Belgian listed companies is important; holdings from Luxembourg are often found as intermediate companies in the cascade structure, but are rarely ultimate controlling shareholders. In contrast, French holding companies like the Groupe Suez-Lyonaise des Eaux and the Paribas holding Cobepa control a substantial part of the listed (and non-listed) Belgian companies.

This paper has also reported recent changes in legislation which have made existing shareholder even more powerful in warding off take over threats. Still, Belgian shareholders do not pay a high price for control as ownership cascades violate the one-share-one-vote rule. The cash flow rights, which reflect the actual equity stake, owned by an ultimate shareholder are often substantially lower than his control rights.

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1 Wymeersch (1994b) makes a distinction similar to Franks & Mayer (1992) between *company-oriented* and *enterprise-oriented* systems. A company-oriented system is characterised by the existence of a large number of listed companies. Most of their shares are effectively traded on the markets. The monitoring function is essentially undertaken by the securities market and active market trading is an essential prerequisite for efficient monitoring. Privileged tools of intervention are the appointment of non executive directors who are chosen on their technical abilities and the designation of special board committees. Ultimately, takeovers drive out inefficient management. The U.S. and the U.K. fall clearly under the definition of a company-oriented corporate control system. An enterprise-oriented system has a low number of listed companies, control is held by major shareholder so that a limited number of shares are effectively on the market. Monitoring does not take place via the market, but is regulated by group law.

2 In this sense, the Italian equity market is similar to the Belgian one : few companies are quoted, concentration of ownership is high, pyramidal ownership structures with holding companies as intermediate investment vehicles are common ( Bianchi and Casavola 1995). But, whereas the Italian state controls a large number of industrial groups and holding companies, Belgian state ownership is rare.

3 All listed companies are SAs or NVs with exception of 5 real estate Bevaks (Sicafi) : Cofinimmo, Cibix, Wereldhave, Befimmo, Warehouse estates Belgium.

4 Council Directive of 12 December 1988 (88/627/EEC).

5 Law of 2 March 1989, Loi sur la transparence des participations importantes dans les sociétés privées, also called '*Transparantiewetgeving*' (transparency legislation) and Royal Decrees of 10 May 1989 and of 8 November 1989. The legislation was published on 24 May 1989 in the Belgian Official Journal (*Belgisch Staatsblad, Moniteur Belge*) and most of the relevant rules became effective on 3 June 1989

6 Law of 18 July 1991.

7 Individual companies can reduce this threshold in the articles of incorporation 3% (but not less). Notification of changes in stakes by the shareholders will have to be made if the following thresholds are passed : 3%, 5%, 10%, 15%, and further multiples of 5%. (Law of 2 March 1989, Section 5.) Currently, about 20 companies have adopted the 3% threshold.

8 Until 31 December 1990, individuals and families ('natural persons') and companies ('legal persons') could send their notification to Banking Commission and request confidentiality.

9 The Commission for Banking and Finance, usually abbreviated to Banking Commission, is the Belgian equivalent of the S.E.C. in the U.S. In a strict legal sense, the authority of the Banking Commission in the area of ownership disclosure supervision and M&A activity is limited, but the Commission has considerable influence on market participants on the basis of its 'moral authority'.

10 Law of 2 March 1989, Section 1, paragraph 3. Note that this article was initially interpreted as referring to all potential voting rights regardless whether these voting rights were linked to existing securities (as in the case with common stock options) or securities that would be newly created (as in the case with warrants or convertible debt). Options on common stock would in this case entail double counting of voting rights. In the case of warrants or convertibles, there is not such double counting, as the voting rights will be created at the exercise time when a new share comes into being. Analysis of the notification sheets reveals that the confusion has gradually disappeared and that the disclosure has focused more on potential voting rights related to new securities (warrants and convertibles).

11 Banking Commission 1989, p. 4-6.

12 'Note on the application of the Law of 2 March 1989' (Banking Commission 1989 p.2).

13 The definition of 'affiliated investors' is given in Article 5 of the Royal Decree of 10 May 1989 and is based on the Royal Decree of 8 October 1976 on the company's annual accounts and consolidation of accounts. 'Acting in concert' is defined in Articles 7 of the Royal Decree of 10 May 1989. Companies acting in concert have agreements with regard to the possession, the acquisition and the selling of securities.

14 Banking Commission 1989 p.8-9.

15 Most 'strategy' statements, however, have a low informational content. For instance, on 14 March 1994, Generale Maatschappij van België (Société Générale de Belgique), the reference shareholder for Union Minière and Naviga, notified that these three shareholders had liquidated their combined shareholdings of 62% in Asturienne because 'the share stake is not considered as strategic'.

16 If a target faxes a ownership notification to the Stock Exchange in the morning, this information is disclosed to the floor at 11.00 a.m. at the earliest via the bulletin board (*ad valvas*) and via the on-line BDPART database. Important news is via this channel quickly dispersed via Tijd Electronic Services or Reuters.

17 The information in the *Cote de la Bourse* is the full responsibility of the Stock Exchange. The *Cote de la Bourse* in its current form appeared as of 1 January 1992. Before this date, the Stock Exchange disclosed information via de *Wisselkoerslijst* which was sent to about 1000 subscribers, mostly brokerage houses, banks, institutional investors and news agencies.

18 Penalties are enumerated in Section 204 of the Coordinated Laws on Commercial Companies.

19 Law of 2 March 1989, Sections 7-11. In May 1995, minority shareholders of PB Finance, a listed real estate company, sued the Dutch holding Euver in order to annul Euver's voting rights or to limit them to 5% because Euver had not disclosed the size of its shareholding (of 67%) to the Commission of Banking and Finance and there were suspicions of fraud.

20 Ownership Disclosure Law of 2 March 1989, article 6.

21 The percentage of ownership of the major shareholders is often an underestimation of the real corporate power these shareholders can exercise. The board, nominated by the major shareholders, could interpret a takeover threat as 'grave and imminent danger' which would allow them to repurchase shares. Furthermore, the board can allow share warrants to be exercised or sold to friendly shareholders for a maximum of 10% of equity capital in order to dilute shareholdings of a potential raider. This authority, for a maximum but renewable period of 5 years, has to be granted specifically to the board by the annual general meeting. Autocontrol mechanisms can also be installed whereby the company's shares are held by a subsidiary. However, a subsidiary's stake in the mother company is restricted to 10%.

22 The mandatory bid rule which has existed since 1965 on a self-regulatory basis has been incorporated into the amendments of law of 1991. The rule requires the acquirer of shares, in as far as control has changed at a price higher than the market price, to bid for all remaining shares and the bid price should be set at a premium above the highest market price over the last 12 months. This way, equal treatment of shareholders is ensured since all shareholders are offered the benefit of the control premium. Furthermore, the propensity to trade large blocks, resulting in companies taken over against their will, is diminished.

23 There are additional conditions for changes in the rights of different classes of shareholders. The board of directors needs to document the reasons for the changes extensively and has to send that report to all shareholders before the annual meeting. On the annual meeting, the proposal is only valid if 50% of the total outstanding voting rights are present and 75% of each category of shareholders votes in favour (Company Law, article 71).

24 Law of 18 June 1991, article 191. This law reduced the threshold from 20% to 1%.

25 At the annual general meeting, the directors are 'discharged' from liabilities that may arise in the future if shareholders present at the annual meeting judge, with information from the external auditors and data in the annual report, that the directors fulfilled their tasks adequately during the fiscal year.

26 Note that the minority claim (Company Law articles 66 bis paragraph 2, article 132 bis and article 158 bis) is for the benefit of the company and not for the benefit of the minority shareholder directly, although the minority shareholders, like all shareholders, might benefit. Consequently, this procedure to appoint experts cannot be used following conflicts between shareholders, but only if the company's economic position and its long term survival is endangered. Case law is rare, but the appointment of experts was justified in these cases: the stocks were overvalued, a company was badly managed and had negative earnings (Lievens 1994). In addition to lowering the threshold level for the minority claim, the rules of conflicts of interest have been tightened : personal liability cannot be excluded if directors take undue advantage of their position to the detriment of the company (Wymeersch 1994a). An individual liability claim can only be initiated if the shareholder can prove that he has experienced personal damage.

27 Before 1991, no shareholder could participate in the voting at the annual meeting for more than 20 percent of the voting rights associated with the total shares outstanding or for more than 40 percent of the voting rights associated with shares represented at the annual meeting. The restriction limiting the exercise of voting rights most had priority.

28 In section 4, we use the following definition: control exerted by an ultimate shareholder on a sequence of intermediate companies and, ultimately, on the sample company exists if (i) there is a series of uninterrupted majority shareholdings on every ownership tier throughout the pyramid or (ii) if there is a large shareholding of at least 25 % on every ownership level in the absence of other shareholders with stakes of blocking minority size or larger. This criterion is used in the tables to calculate group blocks and identify the ultimate shareholder.

29 The main reason for the reduction of listed companies is the delisting of firms in coal mining and steel production either involved in a long liquidation process or existing as corporate shells.

30 The database of the National Bank also comprises data on large shareholdings as reported in the annual reports. However, the data on the Notifications of Ownership Changes are more detailed, often present organization charts of pyramidal ownership structures and give all the ownership changes that took place during the fiscal year rather than the ownership structure at the end of the fiscal year.

31 These five companies are : Delhaize Le Lion, HSPL, Koramic Building Products, SCF and Solvac. In some companies, like Delhaize and Solvac, a family owns a substantial share stake, but this shareholding is held by several members of the family who each hold less than 5% and consequently are not obliged to officially disclose their holding.

32 The detailed frequency distribution is reported in Becht and Chapelle (1997).

33 Given that group blocks mostly coincide with voting blocks, we focus in this section on voting blocks.

34 The percentile plot of Figure 5 details the histogram data.

35 There was no shareholding of at least 25% of 17 sample companies (or 9% of the sample in 1989).

36 To determine the ultimate controlling shareholder, we continued moving up in the shareholders' pyramid when the intermediate share stakes were (i) at least 50% or (ii) at least 25% in the absence of other shareholder with a stake of more than 25% (in this last case the shareholder with more than 25% is likely to possess majority control of the voting rights exercised on the annual meeting). If company A (a widely held company) owns 50% in company B which owns 50% in company C, the ultimate levered control of company A in C is 25% ( $50\% * 50\%$ ).

37 The columns with data on holding companies, families and industrial companies do not add up to the numbers in the all investors column since the total cumulative concentrated ownership of this column is the sum of 8 investor categories. Institutional investors, banks etc do not hold substantial stakes in the sample companies and are not shown in this table.

38 Since 1967 (See Article 1 of Royal Decree nr. 64 of 10 November 1967), there is a registration requirement for Belgian holding companies with a portfolio value of over 0.5 billion BEF (£ 10 million). Company Law does not distinguish between different holding categories and in this paper the NACE classification of the National Bank and of the Bank Brussel Lambert is used. However, the group of holding companies is still rather heterogeneous and includes holdings which are purely financial (e.g. Sofina), a combination of financial and industrial (Generale Maatschappij van België / Société Générale de Belgique) or more like a conglomerate (Tractebel).

39 Law of 2 March 1993. The Royal Decree of 8 May 1990 had already allowed the credit institutions to purchase shares up to 5% of their own funds since 1990.

40 Most share stakes held by institutional investors are under 5% and are as such not included in the analysis. Data about investment funds should be interpreted with caution since some investment funds investing in Belgian shares are domiciled in Luxembourg but managed by subsidiaries of Belgian banks. The Luxembourg authorities do not differentiate according to nationality of the managers of the fund. Regarding institutional investor shareholdings, Van der Elst (1998) reports an aggregate percentage of 17.7% of the votes in listed companies, while Wymeersch (1994b) reports 22% for a sample of listed and non-listed firms.

41 *Beleggingsfonds met veranderlijk kapitaal (Bevek)/ Société d'Investissement à Capital Variable (Sicav)* (mutual fund with variable capital).

42 Until the end of 1990, the investors in investment funds could not be represented by the investment fund on annual general meetings of companies in which the investment fund held shares. In practice, this legal prohibition made it impossible that the voting rights of shares held by investment funds were exercised. The legislation intended to avoid that investment funds would become instruments of financial groups which could strengthen their control on quoted companies. However, the result of this legislation was not neutral since the position of controlling shareholders was even strengthened. The Law of 4 December 1990, article 112, abolished this prohibition and stated that the acts of incorporation can determine in which cases the investment fund is to exercise the voting rights.

43 Ownership tables with the relative importance of each of the foreign shareholder classes (holding companies, banks, institutional investors, insurance companies, industrial companies, families and the government) are available upon request.

44 Shareholders of almost all the member states of the European Union, Switzerland, U.S.A., Canada, Japan, Panama, Congo, Rwanda, Liberia and the Cayman Islands hold stakes of at least 5% in Belgian listed companies.

Figure 1 : Direct Stakes By Rank of Stake for All Listed Companies in 1995

Note: For each of the 135 notified companies the stakes were ranked. For blocks of equal size (ties) the average rank was assigned. This was never the case for the largest stake. For each category the minimum, median, mean and maximum were computed for all stakes in the category.

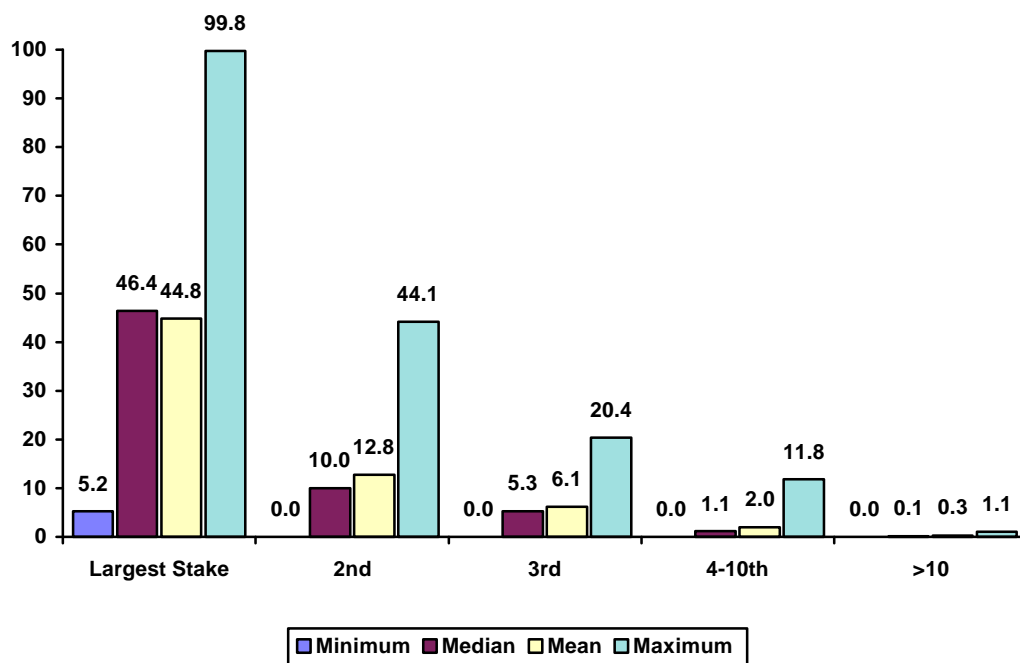
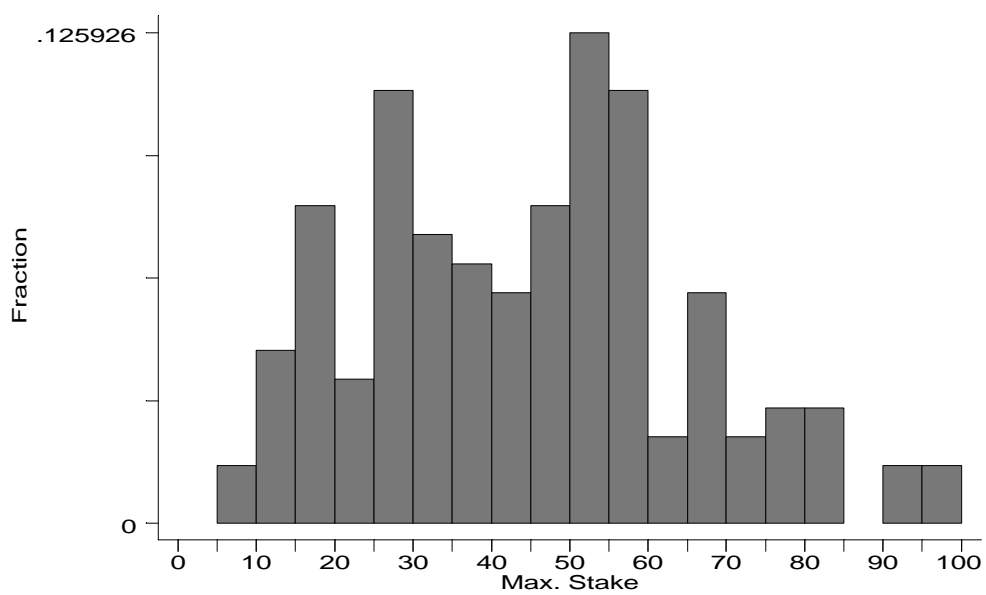


Figure 2 : Histogram of The largest Direct Stakes in 1995

Note: Histogram with the maximum direct stake for 135 notified companies. The five companies with no notified stake are not included



*Figure 3 : Voting Blocks By Rank of Block for All Listed Companies in 1995*

Note: For each of the 135 notified companies the blocks were ranked. For blocks of equal size the same value the average rank was assigned. This was never the case for the largest stake. For each category the minimum, median, mean and maximum were computed for all stakes in the category.

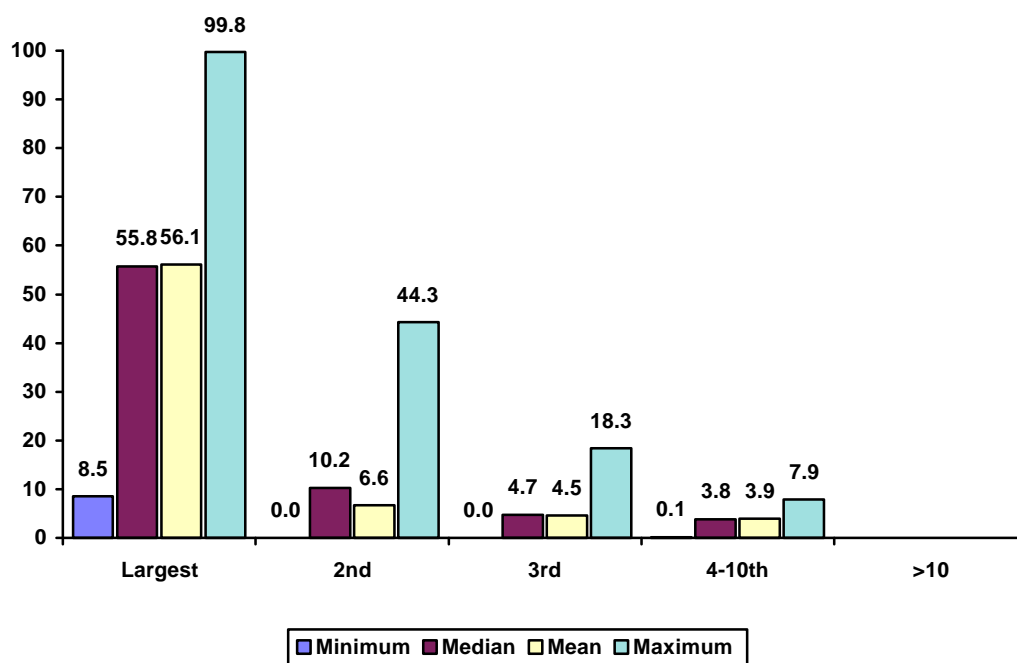




Figure 4 : Histogram of the largest Voting Block in 1995

Note: Histogram with the maximum voting block for 135 notified companies. The five companies with no notified stake are not included. There are no maximum voting blocks smaller than 5%.

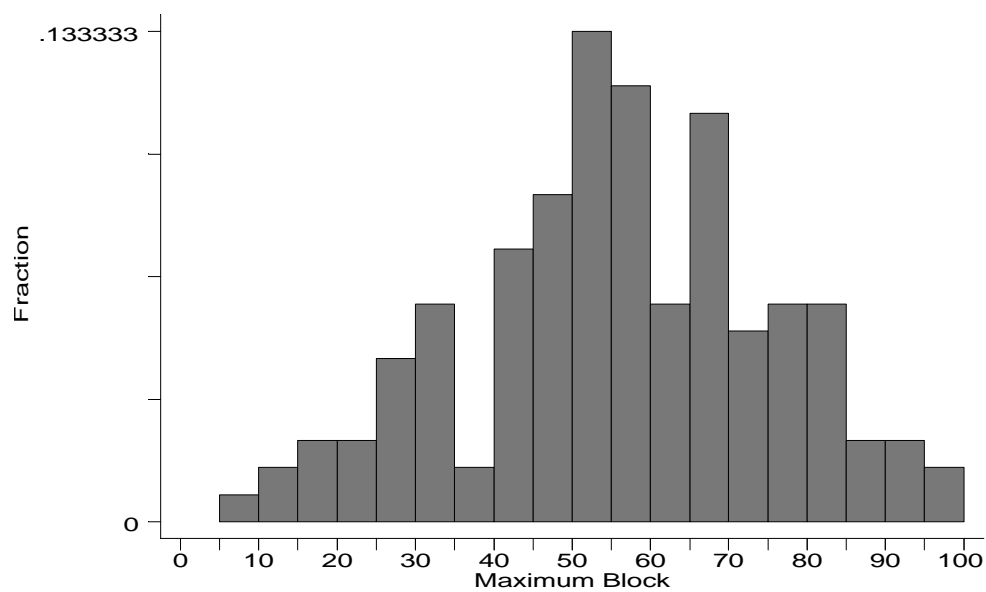


Figure 5: Percentile Plot of Largest voting Blocks

Note: Percentile plot of the largest voting blocks for all sample companies, excluding five companies without notified holdings

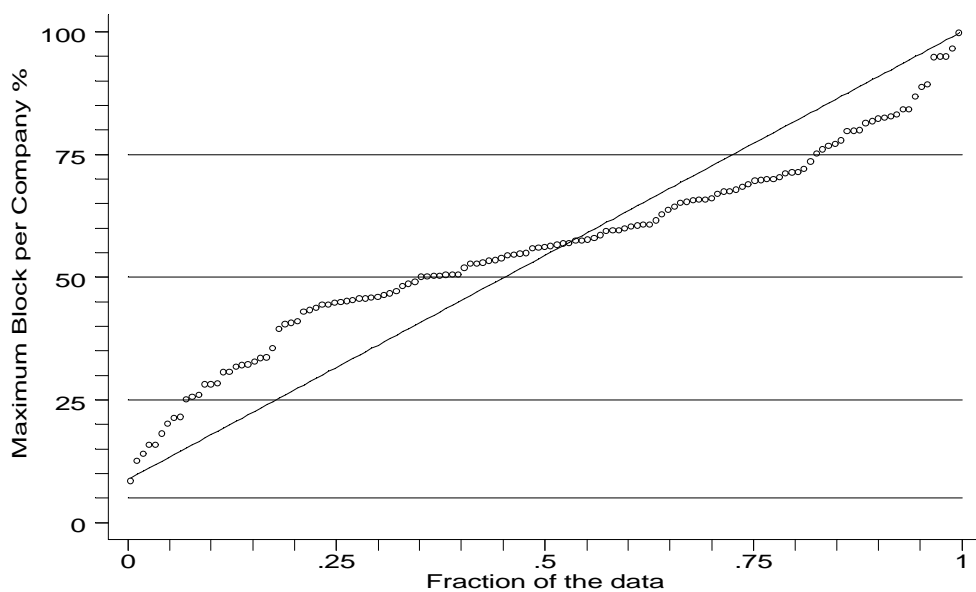


Table 1a : Company Types : Liability, Partners and Managers

Names	Limited Liability	Minimum Capital	Smallest Number of Owners	Smallest Number of Managers	Number of Firms in Belgium
<b>Private Firms</b>					
Société en Nom Collectif (SNC)	No	No		1	0
Commandite Simple – Commenditaire	No for the active managers (commandités) commanditaires)	No		1	0
Société Privée à Limitée – Vennootschap met Aansprakelijkheid (SPRL/BVBA)	Yes		2	1	
Société Privée à Limitée Unique (SPRLU)		BEF 750,000	1 (Single Owner	1	13,300
Coopérative - Cooperatieve	Yes, if specified in the statutes.	BEF 750,000		1	16,600
Société en Commandite par Actions – Vennootschap met Aandelen	Yes	BEF 2,500,000		3 (the managers are partners designated by the statutes of the firm)	
Société Anonyme/ (SA/NV)	Vennootschap	BEF 2,500,000	2	shareholders)	92,000

Names	Deposit of statutes and of	Transfer procedures	Manager's ownership	Publicity of the list of the partners	
Société en Nom Collectif (SNC)	Yes	Submitted to the agreement of all other partners. Notified in the firm's register.	No limit	Not allowed	No
Société en Commandite Simple – Commanditaire Vennootschap (SCS)	Yes	Submitted to the agreement of all other partners. Notified in the firm's register.	No limit for active partners.	Not allowed	No
<b>Mixed firms</b>					
Société Privée à responsabilité Limitée – Vennootschap met Beperkte Aansprakelijkheid (SPRL/BVBA)	Yes	Restricted to agreed partners or submitted to the agreement of half of the partners having ¾ of the capital. Notified in the firm's register.	No limit	No limit. Must be bought with reported profit. Voting rights are suspended as long as owned by the firm.	No
Société Privée à responsabilité Limitée Unique (SPRLU)	Yes	Submitted to the agreement of the single partner. Transform the firm into a SPRL or another SPRLU. Notified in the firm's register.	100%	-	-
Société Coopérative - Cooperatieve Vennootschap (SC/CV)	Yes	No transfer allowed	No limit	Not allowed	No
<b>Public Firms</b>					
Société en Commandite par Actions – Commanditaire Vennootschap met Aandelen (SCA)	Yes	No restriction to transfer. Notification in the register if shares are nominative.	No limit for active partners.	Same rules as for SA	No
Société Anonyme/Naamloze Vennootschap (SA/NV)	Yes	No restriction to transfer. Notification in the register if shares are nominative.	Ruled by the statutes	Same rule as for SRPL. Distribution to employees allowed.	No

Table 1c : Accounting Rules : Form, Contents and Control of Annual Accounts

	Obligation to make and deposit annual accounts		Information on ownership in annual accounts	ann. accounts	External control of annual	Consolidated accounts
<b>Private Firms</b>						
Société en Nom	Yes	Full or Abridged : it	No	No		No
Société en Commanditaire Vennootschap (SCS)		id.	No		No	No
Société Privée à Vennootschap met Aansprakelijkheid (SPRL/BVBA)	Yes	Limitée –	No	No		No
Société responsabilité Limitée	Yes	id.		No	Yes	
Société Coopérative-Vennootschap (SC/CV)	Yes		No	No	SPRL apply.	No
Société Anonyme/Vennootschap (SA/NV)	Yes		Yes, for shareholders owning more than 10% of the	Yes, from 10% of one category of shares in a firm.	officially agreed (réviseurs) if the	Yes if the firm is large enough controls
Société en Commandite par Actions	Yes	id.		id.	id.	

**Table 2 : Frequency distribution of direct shareholdings, group blocks  
and voting blocks**

1995									
No.	Direct Stakes			Group Blocks			Voting Blocks		
	Frequency	Percent	Cum. %	Frequen.	Percent	Cum. %	Frequen.	Percent	Cum. %
1	25	18.5	18.5	38	28.2	28.2	60	44.4	44.4
2	19	14.1	32.6	35	25.9	54.1	43	31.9	76.3
3	23	17.0	49.6	17	12.6	66.7	19	14.1	90.4
4	11	8.2	57.8	12	8.9	75.6	7	5.2	95.6
5	13	9.6	67.4	10	7.4	83.0	2	1.5	97.0
6	7	5.2	72.6	10	7.4	90.4	1	0.7	97.8
7	6	4.4	77.0	3	2.2	92.6	2	1.5	99.3
8	5	3.7	80.7	2	1.5	94.1	1	0.7	100.0
9	5	3.7	84.4	2	1.5	95.6	-	-	-
10	6	4.4	88.9	3	2.2	97.8	-	-	-
11	3	2.2	91.1	1	0.7	98.5	-	-	-
12	4	3.0	94.1	-	-	-	-	-	-
Number of Firms	135			135			135		
Number of share stakes	551			431			269		

Notes : Group blocks are the sum of those direct shareholdings controlled by the same ultimate investor. Voting blocks consist of a combination of group blocks when ultimate investors controlling those group blocks have formed a voting pact regarding the conditions under which voting rights are exercised or regarding priority rights in case of selling the group block. The data are for 1995.

Source : Own calculations based on DBPart, individual notifications and annual reports

**Table 3: Size concentration of large direct shareholdings and of voting blocks**

<b>Panel A : Direct shareholdings</b>				
<b>Measure</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max.</b>
	%	%	%	%
<b>C<sub>1</sub> : Largest shareholding</b>	44.75	20.88	5.22	99.76
<b>C<sub>3</sub> : Sum of largest 3 stakes</b>	59.28	20.1	15.25	99.97
<b>C<sub>5</sub> : Sum of largest 5 stakes</b>	62.25	19.42	15.76	99.97
<b>C<sub>20</sub> : Sum of largest 20 stakes</b>	63.75	19.2	15.76	99.97
<b>C<sub>all</sub> : Sum of all stakes</b>	63.83	19.18	15.76	99.97
<b>Panel B : Ultimate voting blocks</b>				
<b>Measure</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max.</b>
	%	%	%	%
<b>C<sub>1</sub> : Largest ultimate voting block</b>	55.77	19.8	8.45	99.76
<b>C<sub>3</sub> : Sum of largest 3 voting blocks</b>	62.6	19.03	15.76	99.97
<b>C<sub>5</sub> : Sum of largest 5 voting blocks</b>	63.19	19.08	15.76	99.97
<b>C<sub>20</sub> : Sum of largest 20 voting blocks</b>	63.37	19.07	15.76	99.97
<b>C<sub>all</sub> : Sum of all voting blocks</b>	63.37	19.07	15.76	99.97

Notes : This table shows the average of the largest direct shareholdings and the sum of the 3, 5, 20 and all direct shareholdings (panel A). Panel B shows similar measures, but based on ultimate voting blocks in 1995.

Source : Own calculations based on DBPart, individual notifications and annual reports

**Table 4 : Ownership concentration in all Belgian companies listed on the Brussels Stock Exchange**

	Accumulated shareholdings held by :					
	All investors (%)	Holding companies (%)	Families (%)	Industrial Co's (%)	Belgian investors (%)	Foreign investors (%)
<b>Panel A : All sample companies (155 firms)</b>						
Direct shareholdings	65.4	32.7	3.9	14.6	49.4	16.0
Ultimate voting blocks	65.4	26.7	15.6	10.8	39.6	24.4
<b>Panel B: Holding companies (64 firms)</b>						
Direct shareholdings	63.9	36.7	5.2	13.1	46.9	17.1
Ultimate voting blocks	63.9	34.4	14.1	8.3	36.1	28.0
<b>Panel C : Financial sector (banks, insurance and real estate) (19 firms)</b>						
Direct shareholdings	70.0	26.5	1.2	5.5	55.0	15.0
Ultimate voting blocks	70.0	26.2	5.3	5.4	38.4	23.6
<b>Panel D : industrial and commercial companies (72 firms)</b>						
Direct shareholdings	65.5	30.8	3.5	18.3	50.2	15.3
Ultimate voting blocks	65.5	20.0	19.7	14.5	43.0	21.4

Notes : This table aggregates the shareholdings of 5% of more held by the main shareholder categories. The shareholder classes (holding companies, industrial and commercial companies, and families) consist of both Belgian and foreign investors. 'Ultimate voting blocks' means that those direct shareholdings controlled by the same ultimate shareholder or belong to a voting coalition are summed.

Source : Own calculations based on information from the BDPart database of the Brussels Stock Exchange, ownership notifications of the documentation centre of the Brussels Stock Exchange and annual reports



**Table 5 : Number and Size of Voting Blocks per Blockholder.**

Voting Blockholder Name	Number of Companies	Min. Block	Max. Block	Mean Block	Median
Société Générale de Belgique – Compagnie Financière de Suez (Fr)	12	0.03	94.96	40.15	45.42
Banque Paribas - Cobepa (Fr)	10	3.06	81.35	45.44	39.36
Soges Star Fund (B)	10	1.51	5	3.96	4.43
Groupe familial Boel (B)	7	9.89	69.79	41.81	45.05
Groupe familial Van der Mersch (B)	6	13.99	82.56	52.97	67.1
Société Générale de Belgique (B-Fr)	4	50.19	69.98	59.31	58.53
Sofina (B)	4	3.8	71.4	24.7	11.8
Famille Saverys (B)	4	0.02	24	6.07	0.12
Almanij Holding Group (B)	3	40.35	94.98	70.46	76.05
Mr. Guy Paquot (B)	3	50.42	70.43	62.17	65.65
Groupe familial Janssen (B)	3	32.13	71.98	57.32	67.86
Groupe AG - Fortis (B)	3	1.76	10.73	5.26	3.3
Banque Degroof (B)	3	2.94	7	4.74	4.28
Lonrho Belgium (B)	2	77.9	81.83	79.87	79.87
Groupe Bruxelles Lambert (B)	2	60.31	73.62	66.96	66.96
Groupe Danone (Fr)	2	5.3	89.33	47.32	47.32
Région Wallonne (B)	2	13.27	79.79	46.53	46.53
Banques Paribas (Fr)	2	7.68	75.23	41.46	41.46
Heideberg Zement Groupe (G)	2	33.52	44.41	38.97	38.97
Artois- Piedboeuf-Interbrew Groupe (B)	2	34.83	35.28	35.06	35.06
Gewestelijke Investerings-maatschappij voor Vlaanderen (B)	2	9.99	47.14	28.56	28.56
Ackermans Van Haaren Groupe (B)	2	3.39	50.51	26.95	26.95
Royale Belge / Union des Assurances de Paris Groupe (B/Fr)	2	3.49	14.99	9.24	9.24
Groupe des Assurances Generale de France (Fr)	2	7.24	8.75	7.99	7.99
Mutuelle Solvay (B)	2	2.87	12.6	7.74	7.74
Groupe Familial Verbert (B)	2	5	5	5	5
Mercury Asset Management Group (UK)	2	4.64	4.76	4.7	4.7
Cobepa Holding (B-Fr)	2	0.65	7.41	4.03	4.03
Total Holders w. 2 Blocks or more	102				
Total All Blockholders	269				

*Notes :* The table reports summary statistics over these shareholder classes. Among blockholders, the case of the SUEZ / Generale Maatschappij van België (Générale de Belgique (GMB/SGB) group, with a portfolio of 73 stakes in 16 different listed firms (12 + 4), is the most striking example of the presence of French shareholders on the Brussels Stock Exchange. Paribas is another significant example. Soges is a special case since it is an investment fund. Soges belongs to the GBL group but it acts independently for its investments. This type of shareholder holds relatively small stakes (no more than 5%) and it is not an active shareholder. Besides holding companies, Belgian family groups are important: Boël, Janssen, Van der Mersch own large family holdings which often hold controlling blocks in several listed firms. Source : Own calculations based on information from the BDPart database of the Brussels Stock Exchange, ownership notifications of the documentation centre of the Brussels Stock Exchange and annual reports.

**Table 6 : Ownership concentration by type of ultimate blockholder.**

Blockholder Type	Number of Blockholders of this Type	Mean	Min.	Max.	Median
Belgian State	1	50	50	50	50
Individuals (Belgian)	51	27.66	0.02	82.33	13.99
Individuals (Foreign)	2	39.48	7.85	71.1	39.48
Individuals (French)	1	84.15	84.15	84.15	84.15
Belgian Listed Firm	25	32.69	0.19	81.83	32.07
Belgian Listed Firm – Foreign French Firm	1	62.82	62.82	62.82	62.82
Belgian Non Listed Firm	49	25.06	0.14	96.58	9.25
Belgian Non Listed Firm - Foreign Firm	1	69.71	69.71	69.71	69.71
Belgian Non Listed Firm - Foreign French Firm	3	58.31	53.88	61.5	59.54
Foreign Firm	4	24.14	3.24	60.76	16.28
Foreign German Firm	1	33.52	33.52	33.52	33.52
Foreign French Firm	22	32.44	0.03	88.77	30.35
Foreign French Firm - Belgian Listed Firm	1	45.86	45.86	45.86	45.86
Foreign French Firm - Belgian Non Listed Firm	1	65.34	65.34	65.34	65.34
Foreign Italian Firm	1	0.58	0.58	0.58	0.58
Foreign Japanese Firm	2	37.24	6.94	67.53	37.24
Foreign Firm of Luxembourg	13	29.02	3.12	59.87	20.32
Foreign Dutch Firm	3	39.44	3.91	57.43	56.97
Foreign Swiss Firm	3	4.74	3.11	5.9	5.22
Foreign British Firm	3	5.6	4.76	6.99	5.06
Foreign American Firm	4	37.77	3.05	84.17	31.93
Flemish Government	1	99.76	99.76	99.76	99.76
Walloon Government	1	13.27	13.27	13.27	13.27
State of Zaire	1	11.88	11.88	11.88	11.88

Note: Each of the 195 blockholders was classified. The table reports summary statistics by class of owner.

**Table 7 : Largest direct and ultimate levered shareholdings,  
and the control leverage factor.**

		1989	1990	1991	1992	1993	1994
sample size		160	156	156	156	152	146
<b>ultimate ownership level</b>	<b>Mean (%)</b>	2.2	2.2	2.1	2.1	2.1	2
	<b>Std. Dev.(%)</b>	1.364	1.29	1.188	1.159	1.002	0.956
<b>direct largest shareholding</b>	<b>Mean (%)</b>	55.1	56.4	57.2	57.8	57.9	58.3
	<b>Std. Dev.(%)</b>	19.73	19.50	19.92	20.63	20.32	19.63
<b>ultimate levered shareholding</b>	<b>Mean (%)</b>	7	9	3	2	1	5
	<b>Std. Dev.(%)</b>	38	38.5	40.3	41.7	41.5	42.2
<b>control leverage factor (direct/ultimate shareholding)</b>	<b>Mean (%)</b>	22.52	22.90	23.98	24.6	24.56	23.85
	<b>Std. Dev.(%)</b>	4	6	8		3	2
<b>control leverage factor (direct/ultimate shareholding)</b>	<b>Mean (%)</b>	3.6	3.6	3	2.9	2.8	2.7
	<b>Std. Dev.(%)</b>	8.391	8.65	6.756	6.71	6.556	6.86

*Notes :* This table presents the ultimate ownership level, defined as the highest level of ownership in an uninterrupted control chain (direct shareholdings are level 1). Ultimate control is control based on (i) a majority control (minimal 50% of the voting rights) on every ownership tier of the ownership pyramid or (ii) shareholdings of at least 25% on every tier in the absence of other shareholders holding stakes of 25% or more. A chain of fully owned subsidiaries are considered as one single shareholder. The direct largest shareholding is the average direct largest share stake of at least 25%. The ultimate levered shareholding is calculated by multiplying the share stakes of subsequent ownership tiers. The control leverage factor is the ratio of the direct shareholding divided by the ultimate levered shareholding. For instance, company A, whose shares are widely held, owns 40% of company B which, in turn, owns 40% of company C. The ultimate shareholder level is 2, the direct largest shareholding (of B in C) is 40%, the ultimate shareholding is 16% (40% x 40%), and the leverage factor is 2.5 (40/16). There was no direct shareholding of at least 25% in 17 sample companies, which were not included in this table. Standard deviation in parentheses.

*Source :* Own calculations based on data from the BDPart database and the Notifications of ownership.

## Appendix: The Frère-Desmarais Pyramid<sup>1</sup>

### *Overall Structure*

The Frère-Desmarais pyramid has a double vertex. On the European side Baron Albert Frère presides over a control chain that involves a family holding, two non-listed Belgian holdings, a listed Belgian holding and a Dutch holding company. On the Canadian side, Paul Desmarais Sr. controls three companies that control the Power Corporation of Canada and the Power Financial Corporation, two listed companies.

The non-listed holdings are used to bring in the capital of "friends" through share blocks. The listed companies are used to collect funds from capital markets. There are several instances when legal devices (such as dual class shares with multiple voting rights) are used to leverage voting power relative to cash-flow rights, even at the level of the individual pyramid companies.

The two control chains meet in a Dutch holding company (Parjointco N.V.), in which each partner holds 50% of the capital and voting rights. Parjointco controls the Swiss Pargesa Holding S.A. that is listed on the Swiss Stock Exchange. Pargesa is the point of entry to the group's portfolio. Portfolio companies fall into two groups (see Figure 6):

- Controlled companies (e.g. Petrofina)
- Friendly minority blocks with "friends", often involving distant cross-shareholdings with companies higher up in the pyramid, particularly on the Benelux side (e.g. Suez, Paribas, AXA-UAP)

The Desmarais control chain, the Frère control chain and the Pargesa portfolio can be cut in three sub-cascades:

### *The Canadian Chain*

The Canadian pillar of the pyramid is controlled by Mr. Paul Desmarais. It consists of 5 companies : Gelco Enterprises, Pansolo Holding Inc., 3439496 Canada Inc., Power Corporation of Canada and Power Financial Corporation.

Gelco Enterprises, Pansolo Holding Inc. and 3439496 Canada Inc. are directly controlled by Mr. Desmarais (see Figure 7). The exact ownership structure is not disclosed (source : Management Circular of the Power Corporation of Canada, circulated prior to the meeting of May 15 1998 with data for April 7 1998).

<sup>1</sup> Unless noted otherwise, all annual report information is for 31 December 1997. The information from Canadian management circulars is for the first annual meeting in 1998.

On April 7 1998, Mr. Desmarais controlled 64.9% of the votes of Power Corporation of Canada and 30.5% of its capital. The ultimate ownership stake of Mr. Desmarais can not be computed at this level because the leverage achieved through the three holding companies cannot be traced. "Beneficial ownership" in Canadian proxy statements refers to voting rights, not cash-flow rights. The leverage at the level of Power Corporation of Canada is achieved through a dual class capitalisation and multiple voting rights. Power Corporation has issued three types of shares : Non-participating with 0 votes, participating preferred shares with 10 votes and subordinate voting with 1 vote. Mr. Desmarais controlled 99.5% of the votes attached to the preferred shares and 21.8% of the subordinate shares.

Mr. Paul Desmarais receives \$250,000 per year as the Chairman. All other directors received \$15,000 (the chairman of the audit and compensation committee received an additional \$10,000 and all directors receive a bonus of \$1,000 for each meeting they attend). Mr. Desmarais has been the Chairman of the Executive Committee of the company since 1968. Mr. André Desmarais and Mr. Paul Desmarais Jr. are the two Co-Chief executives. They received a salary of \$700,000 plus \$1,000,000 in bonus respectively in 1998 (source : Management Circular of the Power Corporation of Canada, circulated prior to the meeting of May 15 1998 with data for April 7 1998).

On December 31 1997 the Subordinate Voting Shares were listed on The Montreal Exchange, The Toronto Stock Exchange, and the Vancouver Stock Exchange. The Participating Preferred Shares are listed on The Montreal Exchange. (source : Annual Report 1997).

Power Financial Corporation collects additional funds from the markets. The company controls several financial services companies in the United Kingdom and holds a 50% stake in the joint investment vehicle of Paul Desmarais Sr. and Albert Frère : the Dutch holding company Parjointco. The 50% stake in Parjointco N.V. is held via Power Financial Corporation B.V. a wholly owned subsidiary of Power Financial Corporation registered in Rotterdam in the Netherlands.

### *The Benelux Pillar*

The Frère Group consists of a chained series of holding companies. It is headed by the Frère-Bourgeois Group which is said to include a Dutch holding company registered in Rotterdam and a Dutch trust company. The capital is owned to 100% by Baron Albert Frère and his family (see Figure 8).

The first holding company (Erbe Group) provides a link with the French Paribas banking group. Pargesa, the Swiss investment holding company controlled by Parjointco, holds a 1.9% stake in Paribas, which provides for some double gearing.

The second holding company brings in capital from AXA-UAP, the Suez Group (via its Belgian holding company, Generale Maatschappij van België/Société General de Belgique) and Electrafina, a Parjointco/Pargesa controlled company. Pargesa holds a 0.7% stake in AXA. Parjointco/Pargesa/GBL and AXA jointly control the Royal Belge. Hence, there is a considerable degree of double gearing at the second level of the control chain.

The third level of the chain collects funds from shareholders through the Brussels market. The Nationale Portefeuille Maatschappij (NPM) or Compagnie Nationale à Portefeuille (CNP) is the main investment vehicle of Baron Frère. It is at this level that we learn most about the European activities of the Frère-Desmarais group.

The fourth level is a Dutch holding company that is controlled by the family holding (51% of the votes) but majority owned by the listed company (89.5% of the cash-flow rights).

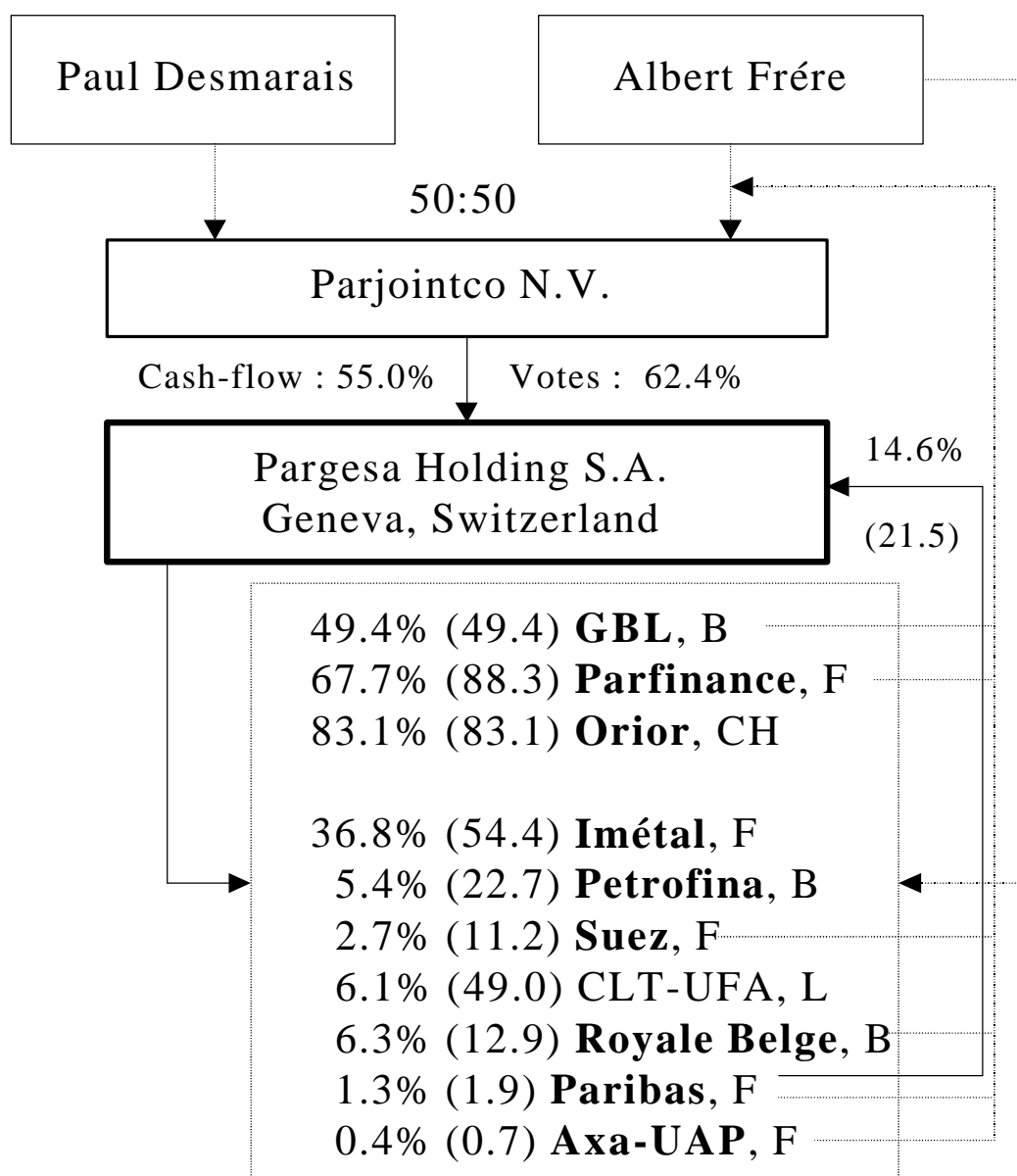
Finally, the Dutch holding company owns 50% of the Parjointco holding, the joint investment vehicle of the Frère-Desmarais group. At this level the Frère-Bourgeois cash-flow stake in Parjointco is, not taking into account the double gearing,  $0.55 \times 0.57 \times 0.54 \times 0.9 = 0.15 + 0.105 = 25.5\%$ .

#### *The Pargesa and NPM/CNP Portfolios*

The portfolio of the group is not held directly by the Dutch Parjointco holding, but by the Swiss Pargesa holding (see Figures 9 and 10). Pargesa is listed on the Swiss Stock Exchange and brings in additional funds from the market and, again, from the French Paribas group. The voting power of Parjointco and Paribas is leveraged through a dual class share capitalization.

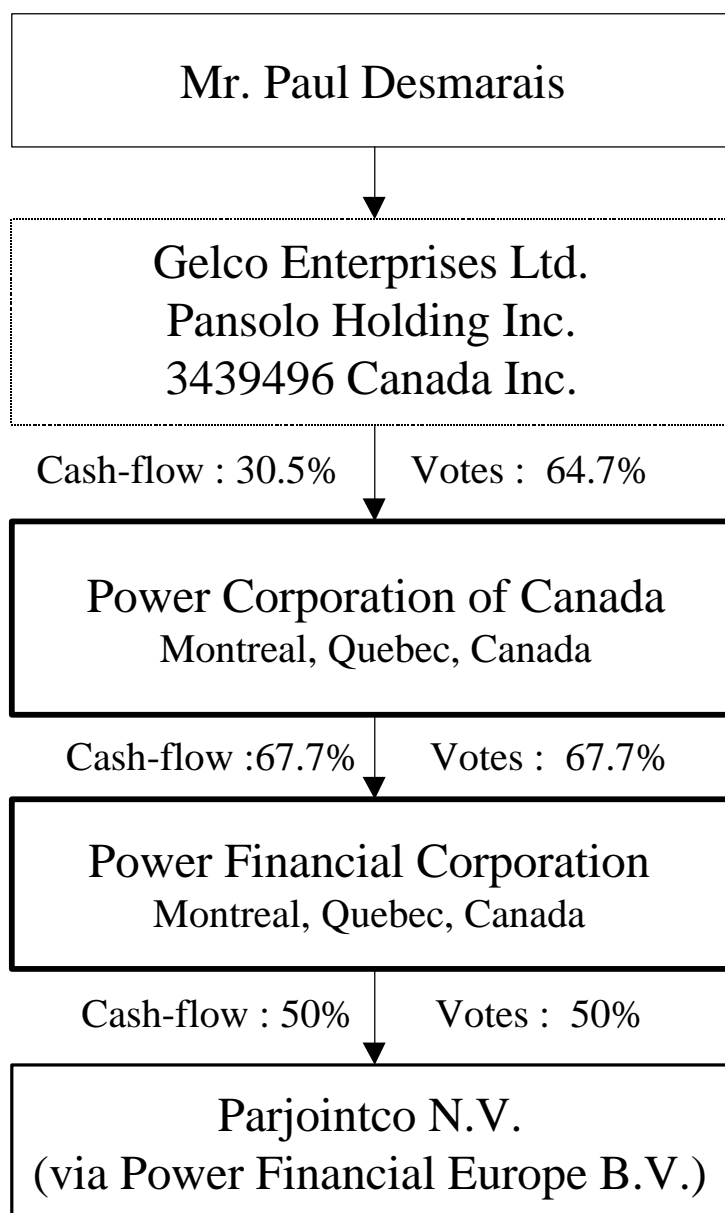
**Figure 6. Overall Structure of the Pyramid**

Note : The data refer to 31 December 1997. Listed companies are framed with emphasis or printed bold-face. Indirect links are represented by dashed lines, direct links by solid lines. Voting rights are between brackets, while cash flow rights are not. Source : Annual Report Pargesa Holding 1997 and annual reports of portfolio companies.



### *Figure 7. The Canadian Control Chain*

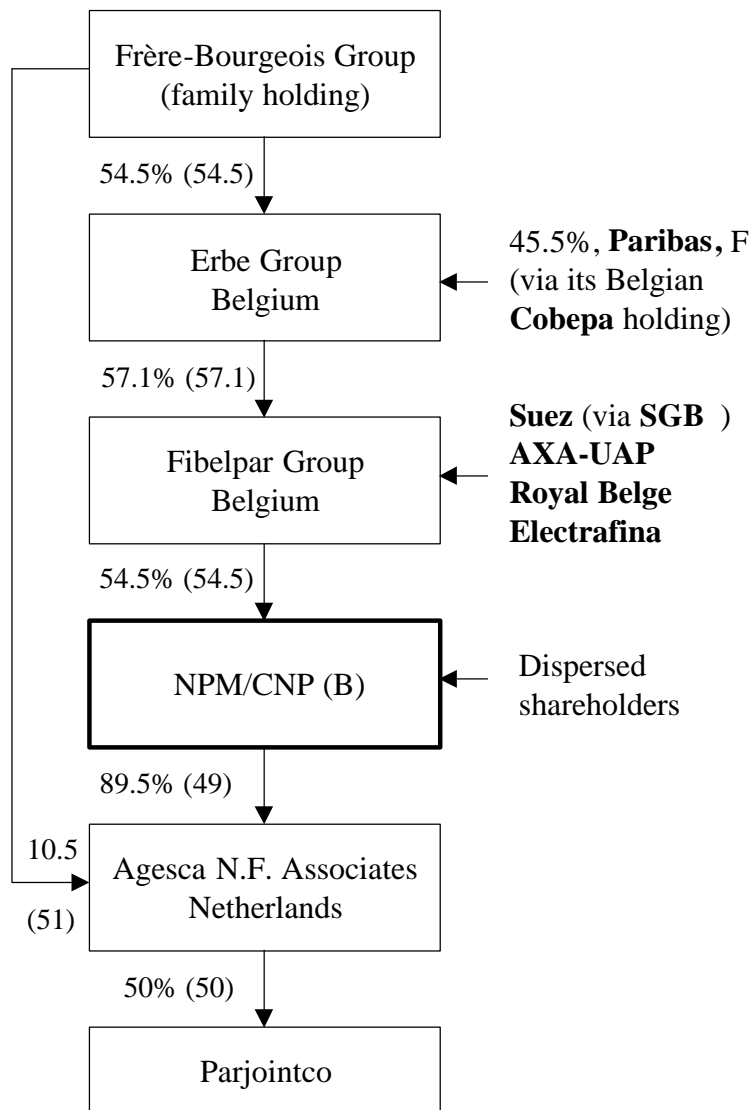
Note : Listed companies are bold-faced. Control is exerted via a series of holding companies. Unknown amounts of external capital are collected via three holding companies. Substantial amounts of external capital are collected via two listed companies. The ultimate cash-flow stake of Mr. Desmarais in Parjointco is smaller than 10.35%. Listed companies are framed with emphasis or printed bold-face. Indirect links are represented by dashed lines, direct links by solid lines.





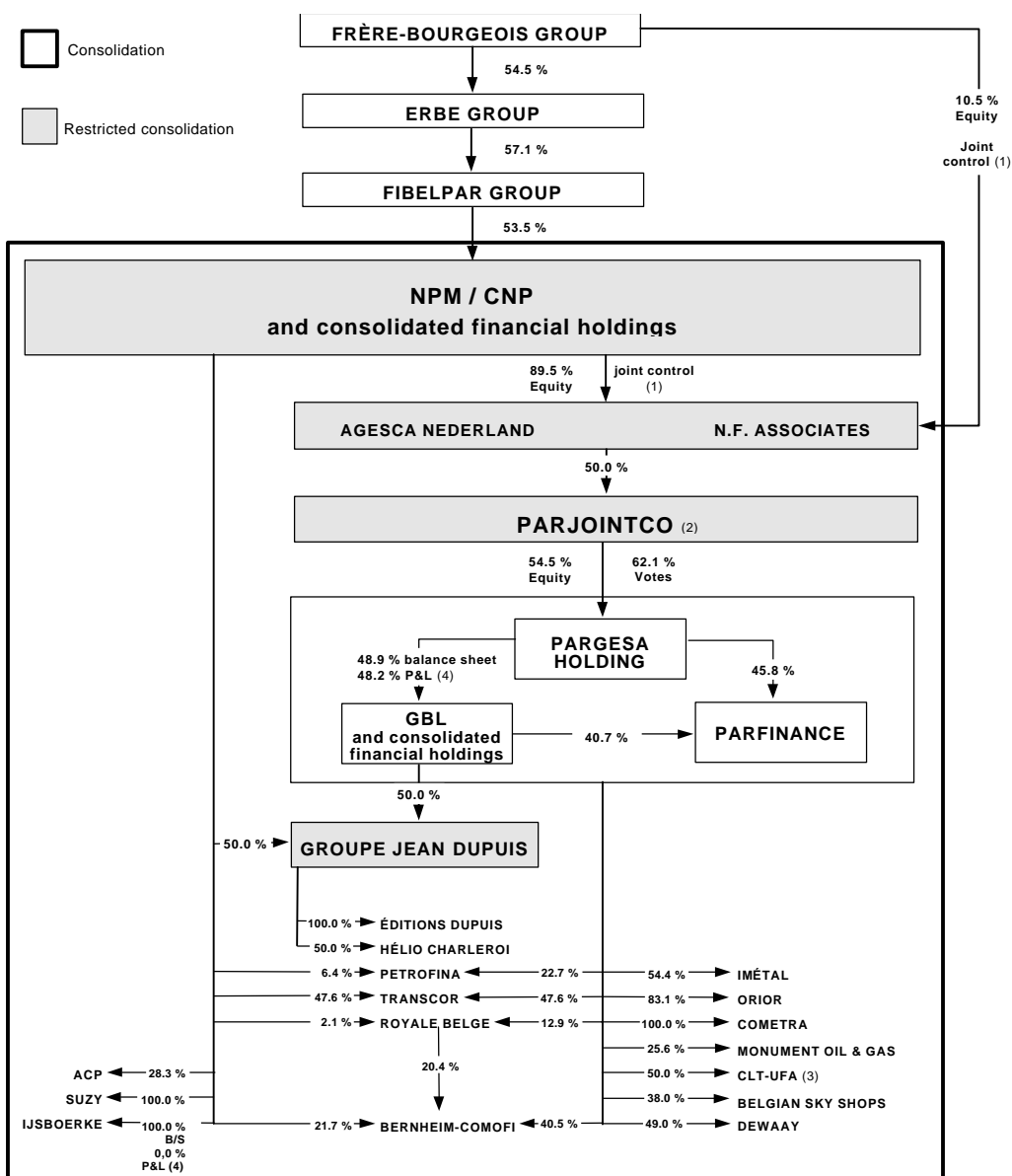
### Figure 8. The Belgian Control Chain

Note : Voting rights are between brackets, while cash flow rights are not. Source : Unless indicated otherwise, all information is taken from the Annual Report 1997 of Compagnie Nationale à Portefeuille (CNP).



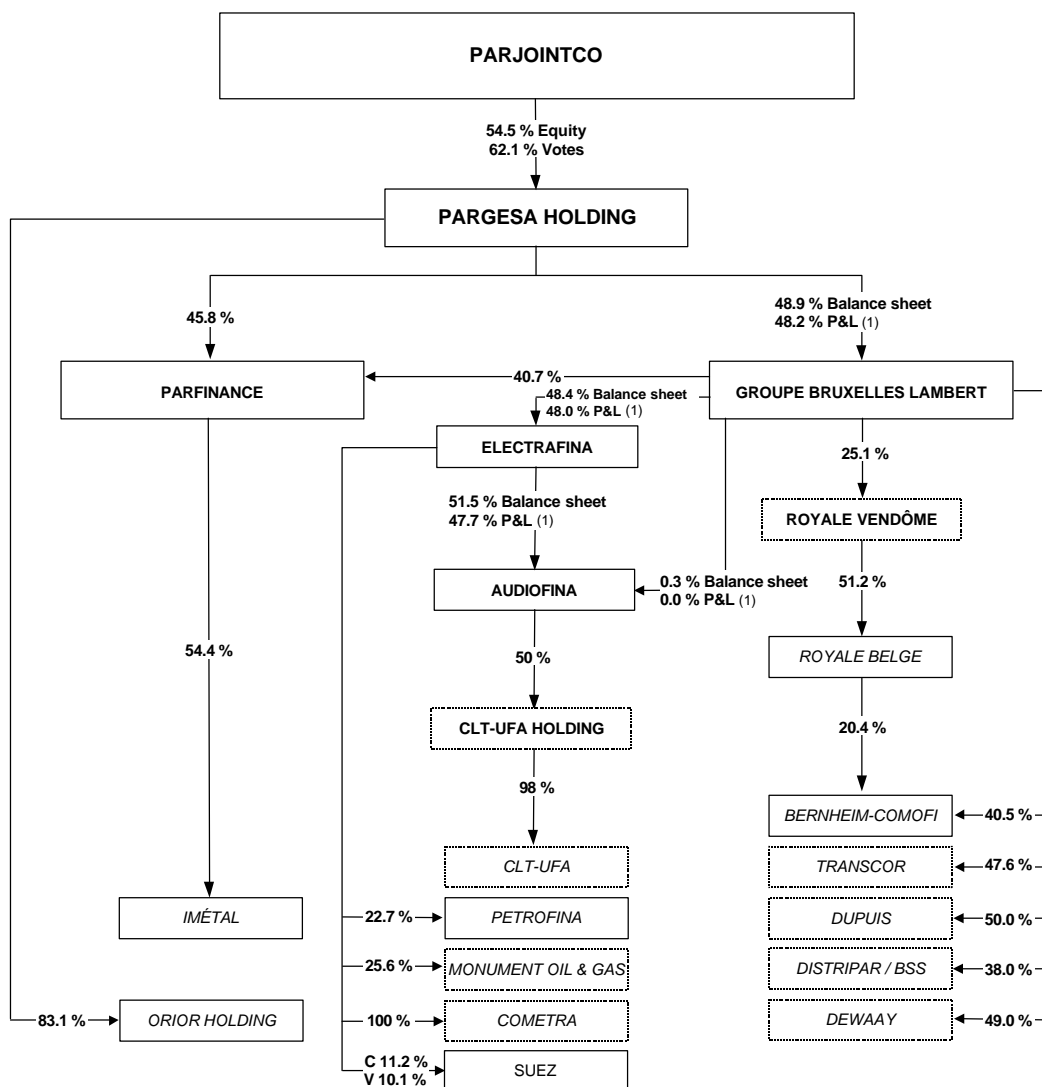
**Figure 9. The NPM/CNP Portfolio**

Source : NPM/CNP, Annual Report, page 74



## Figure 10. The Parjointco Portfolio

Source : NPM/CNP, Annual Report



(1) shares acquired at the end of the year did not contribute to the 1997 profit