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Popular Indices to Bar IPO Companies With Limited Public Voting Rights

S&P 500 and Russell 3000, Among Others, Will Bar New Companies With Low or No Public Voting Rights; Existing Constituents Not Immediately Impacted

S&P Dow Jones and FTSE Russell, publishers of widely used stock indices, have each announced new, more restrictive policies for including in their indices companies with limited voting rights in public hands.

S&P Dow Jones. On July 31, S&P Dow Jones announced that going forward the S&P 500, S&P 600 and S&P 400 indices will no longer admit companies with “multiple share class structures.”¹ This would include companies like Snap Inc., whose March 2017 IPO made it the first NYSE-listed company in nearly a century to issue only non-voting stock to public shareholders. It would also include newly public companies that have a much more common dual-class structure, in which insiders hold a class of stock with multiple votes per share, and the public holds stock with one vote per share. Existing dual-class constituent companies, such as Facebook and Alphabet, would be grandfathered. The new policy will not affect the S&P Global BMI Indices and S&P Total Market Index, which S&P Dow Jones says are intended to “represent the investment universe.”

FTSE Russell. On July 26, FTSE Russell announced that it would bar companies from inclusion in its indices, including the Russell 3000, unless at least 5% of the voting rights are in the hands of “unrestricted (free-float) shareholders.”² This would result in the exclusion of Snap Inc. because of its public non-voting stock, and would also result in the exclusion of companies like Blue Apron Holdings, Inc., which went public in June 2017 with less than 2% of its voting rights held by public shareholders. Existing index constituents will have a five-year grace period to conform their voting structure.

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Dual-class structures are not a recent innovation; they have been relatively common for some time, particularly at technology, media, fashion and investment management companies where the continued control of certain individuals, groups or families over the company's strategy and direction is considered valuable.

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ENDNOTES

- ¹ The S&P announcement is available at https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/561162_spdjimulti-classsharesandvotingrulesannouncement7.31.17.pdf.
- ² The FTSE Russell announcement is available at http://www.ftse.com/products/downloads/FTSE_Russell_Voting_Rights_Consultation_Next_Steps.pdf.

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