Contents

List	ist of Authors		
1.	What Is Corporate Law? John Armour, Henry Hansmann, Reinier Kraakman, and Mariana Pargendler		
	1.1 Introduction	1	
	1.2 What Is a Corporation?		
	1.2.1 Legal personality	5 5	
	1.2.2 Limited liability	8	
	1.2.3 Transferable shares	10	
	1.2.4 Delegated management with a board structure	11	
	1.2.5 Investor ownership	13	
	1.3 Sources of Corporate Law	15	
	1.3.1 Special and partial corporate forms	15 16	
	1.3.2 Other bodies of law		
	1.4 Law versus Contract in Corporate Affairs 1.4.1 Mandatory laws versus default provisions	17 18	
	1.4.2 The benefits of legal rules	19	
	1.4.3 Choice of legal regime	21	
	1.5 What Is the Goal of Corporate Law?	22	
	1.6 What Forces Shape Corporate Law?	24	
2.	Agency Problems and Legal Strategies John Armour, Henry Hansmann, and Reinier Kraakman	29	
	2.1 Three Agency Problems	29	
	2.2 Legal Strategies for Reducing Agency Costs	31	
	2.2.1 Rules and standards	32	
	2.2.2 Setting the terms of entry and exit	33	
	2.2.3 Trusteeship and reward	35	
	2.2.4 Selection and removal	37	
	2.2.5 Initiation and ratification	37	
	2.2.6 Ex post and ex ante strategies	37	
	2.3 Disclosure	38	
	2.4 Compliance and Enforcement	39	
	2.4.1 Enforcement and intervention 2.4.2 Initiators of enforcement	39 40	
	2.4.3 Penalties	43	
	2.5 Legal Strategies in Corporate Context	45	
	2.6 Systematic Differences	45	
3.	The Basic Governance Structure: The Interests of Shareholders		
	as a Class	49	
	John Armour, Luca Enriques, Henry Hansmann, and Reinier Kraakman	ļ	
	3.1 Delegated Management and Corporate Boards	50	

xii Contents

	3.2	Appointment and Decision Rights	51
		3.2.1 Appointing directors	53 55
		3.2.2 Removing directors	57
		3.2.3 Decision rights3.2.4 Shareholder coordination	58
	2 2	Agent Incentives	62
	5.5		62
		3.3.1 The trusteeship strategy: Independent directors	66
	2 /	3.3.2 The reward strategy: Executive compensation	68
	3.4	Legal Constraints and Affiliation Rights	69
		3.4.1 The constraints strategy	71
	3.5	3.4.2 Corporate governance-related disclosure Explaining Jurisdictional Variation	72
4.	The	Basic Governance Structure: Minority Shareholders	
		Non-Shareholder Constituencies	79
		a Enriques, Henry Hansmann, Reinier Kraakman,	
		Mariana Pargendler	
		Protecting Minority Shareholders	79
	1.1	4.1.1 Shareholder appointment rights and deviations	1)
		from one-share—one-vote	80
		4.1.2 Minority shareholder decision rights	84
		4.1.3 The incentive strategy: Trusteeship and equal treatment	84
		4.1.4 Constraints and affiliation rights	88
	4.2	Protecting Employees	89
		4.2.1 Appointment and decision rights strategies	90
		4.2.2 The incentives and constraints strategies	91
	4.3	Protecting External Constituencies	92
		4.3.1 Affiliation strategies	94
		4.3.2 Appointment and decision rights strategies	95
		4.3.3 The incentives and constraints strategies	97
	4.4	Explaining Jurisdictional Differences and Similarities	100
		4.4.1 The law-on-the-books	100
		4.4.2 The law in practice	102
5	Tro	nsactions with Creditors	109
٦.		a Armour, Gerard Hertig, and Hideki Kanda	109
	-		110
).1	Asset Partitioning and Agency Problems	110
		5.1.1 Asset partitioning and corporate creditors5.1.2 Shareholder–creditor agency problems	110 111
		5.1.3 Creditor–creditor coordination and agency problems	116
	5.2	Solvent Firms	119
	۷.۷	5.2.1 The affiliation strategy—mandatory disclosure	119
		5.2.2 The rules strategy: Legal capital	124
	5 3	Distressed Firms	127
).)	5.3.1 The standards strategy	128
		5.3.2 Governance strategies	135
	5 4	Ownership Regimes and Creditor Protection	140
	J. X	5.4.1 Regulatory or contractual controls for solvent firms?	141
		5.4.2 The role of bankruptcy law	142
			- 1-

	•••
Contents	X111
Contents	XIII

6.		ated-Party Transactions a Enriques, Gerard Hertig, Hideki Kanda, and Mariana Pargendler	145
			1//
		Why Are Related-Party Transactions Permitted at All?	146
	6.2	Legal Strategies for Related-Party Transactions	147
		6.2.1 The affiliation strategy	147
		6.2.2 Agent incentives strategies	153 156
		6.2.3 The decision rights strategy: Shareholder voting 6.2.4 The rules strategy: Prohibiting conflicted transactions	158
		6.2.5 The standards strategy: The duty of loyalty and intra-group	1)0
		transactions review	161
	6.3	Ownership Regimes and Related-Party Transactions	166
7.	Fun	damental Changes	171
		vard Rock, Paul Davies, Hideki Kanda, Reinier Kraakman,	
		Wolf-Georg Ringe	
		What are Fundamental Changes in the Relationship among	
		the Participants in the Firm?	172
	7.2	Charter Amendments	174
		7.2.1 The management–shareholder conflict in charter amendments	178
		7.2.2 The majority–minority shareholder conflict in charter amendments	178
	7.3	Share Issuance	180
	-	7.3.1 The manager–shareholder conflict	180
		7.3.2 The majority–minority conflict	181
	7.4	Mergers and Divisions	183
		7.4.1 The management–shareholder conflict in mergers	185
		7.4.2 The majority–minority shareholder conflict in mergers	188
		7.4.3 The protection of non-shareholder constituencies in mergers	192
		7.4.4 Corporate divisions	194
	7.5	Reincorporation and Conversion	196
	7.6	General Provisions on Significant Transactions	199
	7.7	Explaining Differences in the Regulation of Fundamental Changes	201
8.	Cor	ntrol Transactions	205
	Pau	l Davies, Klaus Hopt, and Wolf-Georg Ringe	
	8.1	Regulatory Problems in Control Transactions	205
		8.1.1 Control transactions	205
		8.1.2 Agency and coordination issues	207
	8.2	Agency Problems in Control Transactions	211
		8.2.1 The decision rights choice: Shareholders only or shareholders	
		and board jointly	211
		8.2.2 The "no frustration" rule	212
		8.2.3 Joint decision-making	215
		8.2.4 Pre-bid defensive measures	222
	8.3	Coordination Problems among Target Shareholders	224
		8.3.1 Disclosure	224
		8.3.2 Trusteeship strategy	226
		8.3.3 Reward (sharing) strategy	226
		8.3.4 Exit rights: Mandatory bid rule and keeping the offer open	227
		8.3.5 Acquisition of non-accepting minorities	230

xiv Contents

	8.4	Specific Issues upon Acquisition from a Controlling Shareholder 8.4.1 Exit rights and premium-sharing	231 232
	Q 5	8.4.2 Facilitating bids for controlled companies Explaining Differences in the Regulation of Control Transaction	234 236
	0.)	8.5.1 Differences in form and differences in substance	237
		8.5.2 Different regulatory environments	238
		8.5.3 Political economy considerations	239
		8.5.4 Regulatory uncertainty	240
9.	Corp	orate Law and Securities Markets	243
	-	Enriques, Gerard Hertig, Reinier Kraakman, and Edward Rock	
	9.1	Securities Regulation and Legal Strategies	244
		9.1.1 Why securities regulation?	244
		9.1.2 Affiliation terms strategies	245
		9.1.3 Governance and regulatory strategies	256
	9.2	Securities Law Enforcement	258
		9.2.1 Public enforcement	259
		9.2.2 Private enforcement	260
		9.2.3 Gatekeeper control	263
	9.3	Convergence and Persistence in Securities Regulation	264
10.	Beyo	nd the Anatomy	267
	•	Armour, Luca Enriques, Mariana Pargendler, and Wolf-Georg Ringe	
	10.1	Beyond the Analysis	267
		Beyond the Scope	268
		Beyond the Present	269
. ,			270
Ind	ex		273