## The Law of Corporate Finance: General Principles and EU Law

Volume I: Cash Flow, Risk, Agency, Information



## **Table of Contents**

1	Introduction1					
	1.1	What	Does Corporate Finance Law Mean?	1		
	1.2		Was This Book Written?			
	1.3	What	Are the Themes of This Book?	3		
	1.4		ral Principles and the Firm			
2	The	Natur	e of Corporate Finance Law	11		
	2.1	•				
	2.2	Key Objectives of Corporate Finance Law11				
	2.3	Corporate Finance Law and Efficiency				
	2.4		parison with Other Fields of Law			
	2.5		Fools and Practices in Corporate Finance Law			
3	Mai	падет	ent of Cash Flow: General Remarks	23		
	3.1		Scope of Legal Considerations			
	3.2		ric Ways to Manage Cash Flow			
4	Management of Risk: General Remarks2					
•	4.1					
	4.2					
			Introduction			
			Different Categories of Legal Risk			
			The Effect of the EU on Legal Risk			
		4.2.4				
	4.3	Mana	gement of Legal Risk			
		4.3.1	Introduction			
		4.3.2	Strategic Level	48		
		4.3.3	Operational Level			
		4.3.4	Transactional Level			
	4.4			67		
		4.4.1	Introduction			
		4.4.2	Living with Risk			
		4.4.3	Transfer of Risk Through Incorporation			
		4.4.4				
		4.4.5	Transfer of Risk Through Contracts			
		4.4.6	Mitigation of Risk Through Diversification	94		

5	Age	ncy, Risk, Transparency, Governance	97		
	5.1	Corporate Risk Management v Corporate Governance	97		
	5.2	Partly the Same Legal Tools	97		
6	Management of Agency in General				
	6.1	Introduction	99		
	6.2	Behaviour Modification	101		
	6.3	Choice of the Scope of Agency	105		
	6.4	Alignment of Interests	106		
	6.5	Monitoring (Transparency)	109		
	6.6	Choice of Agents	109		
	6.7	Rules and Standards	, 110		
	6.8	Initiation and Ratification			
	6.9	Trusteeship and Reward	112		
	6.10	The Role of Legal Background Rules	113		
7	Cor	porate Risk Management			
	7.1	***************************************			
		7.1.1 General Remarks			
		7.1.2 Financial Theory, Strategy, and the Firm	115		
		7.1.3 Corporate Risk Management as a Business Discipline	116		
		7.1.4 Costs, Risk Level, Compliance, Agency, Information			
	7.2	2 Strategic Risk Management			
	7.3	Operational Risk Management	123		
	7.4	Fundamental Organisational Measures	125		
	7.5	Excursion: Dealings with Third Parties	133		
	7.6	The Regulation of Corporate Risk Management	135		
		7.6.1 Introduction	135		
		7.6.2 Basel II and Ratings			
		7.6.3 Fair Value Accounting of Financial Assets			
		7.6.4 Basel II and the Governance of Banks			
		7.6.5 The MiFID and Risk Management			
		7.6.6 Disclosure of Risk			
		7.6.7 The Contents of Risk Management Policies	153		
8	Age	ncy and Corporate Governance			
	8.1	Introduction	159		
	8.2	Three-level Choices, Theory of Corporate Governance			
		8.2.1 General Remarks	165		
		8.2.2 First Level, Artificial Person			
		8.2.3 First Level, Organisation	167		
		8.2.4 First Level, Legal Organisation v Real Organisation			
		8.2.5 Second Level, the Firm as the Principal			
		8.2.6 Third Level, the Interests of the Firm			
	8.3	The Function of the Board			
	8.4				
	8.5				
	8.6	Allocation of Value and Risk	184		

	8.7	The Re	ole of Shareholders	
		8.7.1	The Interests of Shareholders	185
		8.7.2	The Function of Shareholders	188
		8.7.3	The Relative Importance of Shareholders	193
		8.7.4	Should the Share Price Be Maximised?	
		8.7.5	What Does Making a Profit for Shareholders Mean?	196
		8.7.6	What Are Shareholders Paid For?	197
		8.7.7	How Can the Board Increase the Value of Shares?	199
		8.7.8	Why Should the Firm Use Takeover Defences?	201
		8.7.9	Why Are Shareholders Protected by Laws?	202
		8.7.10	Should Shareholders Have Formal Powers?	204
9		ageme	ent of Agency in Corporate Governance	209
	9.1		uction	
	9.2		ng with Different Agents: General Remarks	
		9.2.1	Agent Mix	
		9.2.2		
		9.2.3	The Firm as an Agent	
		9.2.4	Society at Large as an Agent	
		9.2.5	Shareholders as a Class as Agents	
		9.2.6	Individual Shareholders as Agents	
		9.2.7	<u> </u>	
			Customers and the Public as Agents	
		9.2.9		
			Individual Managers as Agents	
	9,3		The Board as an Agent	
	9.3		nunity LawIntroduction	
		9.3.1	Separation of Decision Management and Control	
		9.3.2 9.3.3	Monitoring by the Board	
		9.3.3	Financial Reporting and Transparency	
		9.3.4	The Alignment of Interests, Financial Rewards	
	9.4		olling Shareholders' Corporate Governance Tools	207 272
	7.4	9.4.1	Introduction	
		9.4.2	Block-holding as a Corporate Governance Tool	
		9.4.3	The Board as a Corporate Governance Tool	
	9.5		rity Shareholders' Corporate Governance Tools	
	,,	9.5.1	Introduction	
		9.5.2	Avoidance of Risk	
		9.5.3	Mitigation of Risk in Advance	
		9.5.4	Equivalent Treatment	308
		9.5.5	Block-holding as a Corporate Governance Tool	309
		9.5.6	Different Classes of Shares	
		9.5.7	Voting Caps	
		9.5.8	Exit Rights	
	9.6		d Corporate Governance" as a Tool	326
			ourcing as a Corporate Governance Tool	

10	Man	agement of Information	335
	10.1	Introduction	333
		10.1.2 Information and Information Economics	
		10.1.3 Dealing with Information Problems	
	10.3	10.1.5 Corporate Finance Law, Information, the Firm	
	10.2	Information Management in Corporate Finance Law	
		10.2.1 Introduction	
		10.2.2 Information Delivery Chain	
	10.3	10.2.3 Legal Tools and Practices: General Remarks	332
	10.3	Legal Tools and Practices: Investment in Information	
		10.3.1 General Remarks	
		10.3.2 Automation, Standardisation	
		10.3.3 Separate Decisions, Contracts	ددد ععد
	10.4	Legal Tools and Practices: Incoming Information	
		10.4.1 Introduction	
		10.4.2 Transfer of Risk	
		10.4.3 Intermediaries, Improving Information Quality	
		10.4.4 Creating Incentives	
		10.4.5 Screening of Potential Intermediaries	
		10.4:6 Identifying Good Intermediaries	363
		10.4.7 Identifying Bad Incentives	
		10.4.8 Being Optimally Informed	368
		10.4.9 Mitigating the Risk of Attribution of Information	
	10.5	Legal Tools and Practices: Outgoing Information	
		10.5.1 Introduction	
		10.5.2 Keeping Information Secret	374
		10.5.3 Benefiting from Superior Information	391
		10.5.4 Increasing the Perceived Usefulness of Information	
		10.5.5 Management of Reputation	
		10.5.6 Establishing or Restricting Communication	404
		Analysis of Rights and Duties Relating to Disclosure	
	10.7	Community Law	
		10.7.1 Introduction	
		10.7.2 Main Policy Choices	
		10.7.3 Regulation of the Quality of Financial Information	
		10.7.4 Regulation of Intermediaries: General Remarks	
		10.7.5 Information Analysts Outside the Target	
		10.7.6 Information Analysts Inside the Target	
		10.7.7 Information Analysts Inside the Firm	465
		10.7.8 Regulation of Outgoing Information Otherwise	466
n			471