

VIII JAIME FERNÁNDEZ DE ARAOZ AWARD
on
CORPORATE FINANCE

Harvard Professors Lucian Bebchuk and Scott Hirst are the authors of the winning paper in this 8th edition of the Award

A STUDY OF INDEX FUNDS AND THE FUTURE OF GOOD CORPORATE GOVERNANCE WINS THE JAIME FERNÁNDEZ DE ARAOZ AWARD ON CORPORATE FINANCE

Madrid, 11 July 2019.- Professors Lucian Bebchuk and Scott Hirst won the **VIII Jaime Fernández de Araoz Award on Corporate Finance**, for their work titled **“Index Funds and the Future of Corporate Governance: Theory, Evidence and Policy”**. The paper analyses how management decisions taken by the directors of index funds have a considerable impact on good corporate governance and on the functioning of listed companies and the economy.

Lucian Bebchuk, an Israeli-born American, is a professor of law, economics and finance and directs the Corporate Governance Programme at Harvard Law School. Bebchuk is the author or co-author of more than one hundred research papers, as well as the acclaimed book *Pay without Performance: The Unfulfilled Promise of Executive Compensation*. Bebchuk's articles have been published in the top academic law, economics and finance magazines. Professor Bebchuk teaches at Harvard Law School, where he is the James Barr Ames Professor of Law, Economics, and Finance, as well as Director of the Program on Corporate Governance. He is also a Fellow of the American Academy of Arts and Sciences and a Research Associate of the National Bureau of Economic Research. Professor Bebchuk received a B.A. in mathematics and economics from the University of Haifa, an LL.B. from Tel Aviv University (TAU), an LL.M. and S.J.D. from the Harvard Law School, and an M.A. and Ph.D. from the Harvard Economics Department.

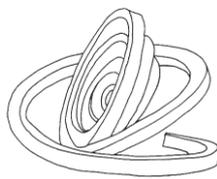
Scott Hirst, an Australian-born resident of the United States, is an associate professor of law at Boston University. His research seeks to explain phenomena in corporate law. His work combines empirical methods and conceptual analyses of finance, accounting and economics, with special attention to the institutional environment in which companies and investors make their decisions. Hirst is a Doctor of Juridical Science (SJD) from Harvard University, has a Bachelor's Degree in Law and Commerce from the University of Queensland (Australia) and a Master's Degree in Law from Harvard University.

The results presented in the article are key to understanding the mechanisms of index fund management decisions and how policy design can contribute to the improvement of index funds.

Index funds are steadily increasing their stakes in American listed companies; currently they account for more than one-fifth and their stake is on the rise. It is to be hoped

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that the management decisions made by the managers of index funds - the way in which they supervise, vote and relate to the companies in their portfolios - will have a significant impact on corporate governance and the functioning of listed companies and the economy.

In their work, the authors highlight that these large fund managers collectively fall short in their role, as shareholders, of oversight of public companies. They have incentives to underinvest in stewardship and to be excessively deferential to the corporate managers of portfolio companies. Given this analysis and empirical evidence, the concern is that the increased concentration of shares in the hands of institutional investors will not produce the improved oversight of public companies that would be beneficial for public companies and the economy.

For the first time, detailed and comprehensive evidence is presented covering the full range of actions undertaken by those responsible for the management of index funds, as well as those that they fail to undertake.

One of the main conclusions of the analysis is that an increase in the responsibility of index funds for overseeing corporate governance will lead to an exponential improvement in long-term corporate governance and a better functioning of financial capitalism.

The authors of the paper recommend imposing limits on the concentration of sector- and company-specific positions of index funds in order to avoid the formation of a dominant position that disrupts the proper functioning of prices and of the market.

Finally, they warn the authorities and market players of the importance of becoming aware of the problem in order to be able to solve it and not look the other way as they have done so far.

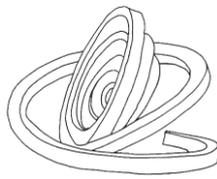
About the Jaime Fernández de Araoz Award

The purpose of the **Award**, the only one of its kind in Spain, is to contribute to developing the economy and corporate finance through acknowledging an applied research work in this field. This edition of the **Award** has the collaboration of **CUNEF** and **Universia** and includes a cash prize of €10,000 and a sculpture by Martín Chirino.

The members of the Jury are people of recognised prestige from the economic, business and academic spheres. The Jury is chaired by Mr Eduardo Serra Rexach, president of the Transforma España Foundation. The Award will be presented to the authors of the winning paper in September in a ceremony which will take place in Madrid.

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Since the Award was launched in 2005, 255 submissions on a wide range of subjects have been received from authors representing more than 28 nationalities. In the first edition of the Award, the winner was a paper on investor protection in international transactions; in 2007, the winning paper was on executive compensation; in 2009, on internal corporate governance; in 2011, on the talent market in the United States; in 2013, on the relationship between tax incentives and the capital structure of companies; in 2015, on the relationship between tight credit and employment; and in the previous edition, on the effect of the cost of external capital (issuance of shares to investors other than the founding entrepreneurs), on investment by young companies.

In this eighth edition of the Jaime Fernández de Araoz Award on Corporate Finance, 32 papers from 83 authors of 26 different nationalities were submitted. Most of the authors come from academic and university backgrounds, and they represent the world's leading universities and business schools.

The Award pays homage to **Jaime Fernández de Araoz Gómez-Acebo**, BA in Economics and Business from CUNEF, who devoted his professional life to investment banking. From 1989 to 2003, he worked at Lehman Brothers, Banco Santander and finally as Managing Director at Citigroup. At all these companies he showed his great human and professional qualities. He died in an accident in 2003, at the age of 37.

For more information: www.premiojfa.org

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