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An Examination of Preference Share Issuance by Companies Listed on the Malta Stock Exchange

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Abstract: This investigation addresses the issuance of preference shares by companies listed on the Malta Stock Exchange (MSE), identifying key determinants and obstacles associated with these initiatives. Semi-structured interviews were conducted with 27 stakeholders, including representatives from 23 MSE-listed companies (MLCs), one MSE official, two stockbrokers, and an advisor from a leading global accounting firm. An evaluation of the financial distress faced by issuers prior to the issuance of preference shares was also undertaken. Despite the establishment of the MSE in 1992, preference shares have been issued by only two listed companies, indicating their minimal utilization as financial instruments within the Maltese market. The findings reveal that preference shares are primarily issued to meet financing needs, support corporate expansion, prevent control dilution, capitalize on favorable market conditions, maintain balanced capital structures, and enhance debt capacity. However, several barriers hinder the issuance of preference shares, including limitations inherent to the Maltese capital market, low investor interest, perceived complexity, and a general lack of understanding regarding this hybrid financial instrument. The study underscores the necessity for improved educational efforts concerning preference shares and elucidates the distinctive characteristics of the local market.

Keywords: Preference shares; Preference share issues; Maltese Listed Companies (MLCs); Finance; Malta Stock Exchange (MSE); Hybrid securities; Maltese capital market

1. Introduction

Preference shares are a class of shares that, as their name implies, come with several associated privileges (Parameswaran, 2007). Foremost of which is the priority in the receipt of dividends over ordinary shareholders. Preference shareholders may also have a prior claim to a company's earnings and residual assets in the event of liquidation (Bechvaia, 2016). Therefore, preference shares rank senior to equity but junior to debt in the corporate capital structure.

Although in legal terms, preference shares form part of a company's equity base, in practice, they bear considerable resemblance to debt (Santow, 1962). In fact, they are hybrid securities, featuring characteristics of both pure equity and pure debt (Liberadzki & Liberadzki, 2019). As contended by Korsmo (2013), there is no "platonic ideal for the preferred stock," nor is it a "one-size-fits-all" security, but "come(s) in a bewildering variety." Indeed, preference shares can have a vast array of features, ranging from participating/non-participating, cumulative/non-cumulative, convertible/non-convertible, and/or redeemable/irredeemable (Pike et al., 2015).

By virtue of its "highly heterogeneous" nature, the preference share is a "bespoke security" (Korsmo, 2013), that can be tailored to best suit the specific financing needs and circumstances of different issuers (Bessa, 2017).

As a result, "there is no common pattern" to preference share issues as they differ considerably from one company to another (Yarko, 2020).

As with other sources of finance, preference shares can be issued privately or else offered to the public and "subsequently listed on a trading platform operated by a stock exchange. Locally, the MSE provides the infrastructure for the listing of securities" (Rizzo, 2022).

While the debt-equity choice has been thoroughly analyzed in the corporate finance literature, the subject of preference shares has, in contrast, been accorded very little discussion (Bonnevier & Børke, 2014). Preference share issues are not an unusual phenomenon in other markets, particularly in the U.S. (Rizzo, 2021). However, the Maltese preference share market has been dormant for several years and has only just recently been revived through a preference share issue by one MLC (Rizzo, 2021).

The objectives of the study are to: (i) establish the extent to which preference shares have been issued by MLCs; (ii) analyze the major determinants and barriers to such preference share issues; and (iii) determine whether preference shares have a place in the capital structure of MLCs. In its aim to develop, insofar as possible, a comprehensive understanding of the use of preference shares and their implications on firms and the broader financial market in the small European island-state of Malta, this study integrates various theoretical perspectives encompassing mainly the relevant legal and financial frameworks and the financial distress, agency, market efficiency, and capital structure theories. It thus seeks to extend the scarce body of literature on preference shares by providing in-depth insights into this unconventional financing vehicle in the corporate finance structure of firms in such a small island state.

2. Literature Review

2.1 History on the Use of Preference Shares

2.1.1 The use of preference shares both within and outside Europe

Preference shares have a "long and rich history" in both the U.S. and the UK (Bechvaia, 2016). According to Evans (1929), the very first preference share issues in the U.S. can be traced to 1836, when Maryland railroad and canal companies, most of which were in financial difficulties, were unable to raise the necessary capital from investors to complete their construction projects. Consequently, they appealed for state financial aid, which was only supplied in exchange for stock with a fixed dividend (Moyer et al., 1987).

Evans (1929) contended that preference shares originated in England as "the use of 'new' shares with a priority or preference of dividend had already been permitted" back in the 16th century (Baker & Langenfeld, 2018). However, while preference shares remain an important means of financing for many U.S. companies, "there is a question as to how active the UK preference share market has been" (Laurent, 2002).

European listed companies have not been as keen to resort to this means of raising external capital (Bonnevier & Børke, 2014). In Europe, preference shares remain useful as a vehicle for financial investments in unlisted companies, yet "have virtually disappeared from stock markets" (Vernimmen et al., 2018). However, from 2009 to mid-2016, Brabenec et al. (2020) reported that a total of 158 publicly traded companies across the European market issued both preferred and common stocks, with most issuers based in Russia, Germany, Italy, and Sweden.

Historically, preference shares have been a largely unpopular financial instrument in Malta, with these securities only just having resurfaced in the public market after a 19-year absence, thanks to an Initial Public Offering (IPO) of preference shares by an MLC in 2021 (Rizzo, 2021).

2.1.2 The use of preference shares as a last resort

In their Pecking Order Theory, Myers & Majluf (1984) argued that companies follow a financing hierarchy whereby preference shares and/or other hybrid securities are only availed of after having exhausted the use of debt and before having to resort to ordinary share issues (Laurent, 2002).

Contrastingly, Donaldson (1962) and Pinegar & Wilbricht (1989) argued that preference share financing "of any sort is less appealing than financing with external common stock." Likewise, Laurent (2002) found that UK firms issue convertible preference shares because they are "the only feasible alternative" given the unavailability of straight debt or equity instruments. Furthermore, preference shares may serve as a solution of last resort for those firms struggling to survive, as was indeed the case both during and in the aftermath of the 2008 global financial crisis (Bessa, 2017; Bonnevier & Børke, 2014).

2.2 Regulating the Use of Preference Shares

2.2.1 Accounting regulations – liability vs equity

According to IAS 32 Financial Instruments: Presentation, preference shares can be accounted for either as an equity instrument, a financial liability, or as a compound instrument having both a liability and an equity component (Goetz, 2018). The classification of a preference share depends not on its legal form but on its substance, i.e., its contractual rights and obligations (IASB, 2003). For instance, mandatory redeemable preference shares with a fixed dividend are considered to be financial liabilities, whereas preference shares without a redemption date should be presented as equity. Consequently, distributions to holders of preference shares classified as equity should be charged directly against equity (IASB, 2003), whereas "dividend payments on [preference] shares wholly recognized as liabilities are recognized as expenses in the same way as interest on a bond" (IASB, 2003).

2.2.2 Taxation legislation – the tax deductibility of preference dividends

The accounting classification of preference shares will likewise determine the tax deductibility or otherwise of the preference dividend (IASB, 2003). Preference shares classified as liabilities as per IAS 32 are considered to provide 'interest' to the holders of such instruments, and hence such 'interest' would be an allowable tax deduction, thereby reducing the corporate tax liability of the issuing company (Fenech, 2016). Contrarily, dividends on preference shares recognized as equity are paid out of the issuing company's post-tax earnings and hence would be non-deductible (Girdler, 2018).

2.2.3 The MiFID requirements – complex financial instruments

Preference shares traded on a regulated market are also subject to the appropriateness requirements established in the Markets in Financial Instruments Directive (MiFID) II. These requirements prohibit investment firms from providing investment services on an 'execution-only' or 'non-advisory' basis in relation to complex financial instruments, without "assessing the appropriateness of the service or product for the client" (Rizzo, 2018). According to Article 57 of the Commission Delegated Regulation (EU) 2017/565, straight preference shares issued by listed companies would automatically qualify as a non-complex financial product. Conversely, redeemable and convertible preference shares would be classified as complex financial instruments (CESR, 2009).

2.2.4 Capital adequacy requirements

Banks are subject to various regulatory capital rules, which they must abide by. A bank's total regulatory capital comprises the following three components (BCBS, 2023): 1) Common Equity Tier 1 (CET 1), 2) Additional Tier 1 (AT 1), and 3) Tier 2 Capital (T2). According to the latest European Banking Authority (EBA) list of CET1 instruments of EU institutions, preference shares under Maltese law are eligible as CET1 instruments (EBA, 2022).

2.3 Motivations for the Issuance of Preference Shares

2.3.1 Supporting corporate growth

Houston Jr & Houston (1990) contended that preference share financing can serve to support corporate growth since most of the PSIs they studied resorted to this hybrid instrument to acquire assets, "either to expand the asset base, to replace worn-out assets, or both."

2.3.2 Maintaining a balanced capital structure

Another primary motive for the issuance of preference shares is to maintain a balanced capital structure, a financing structure that achieves an optimal balance between a diverse range of sources, thereby maximizing the company's value whilst minimizing the cost of capital (Elsaid, 1969; Fischer & Wilt, 1968).

2.3.3 Avoiding dilution of control

Typically, preference shares confer limited to no voting rights to their holders, thereby rendering them an appealing financial instrument for companies wishing to avoid dilution of control of existing common shareholders (Howe & Lee, 2006) and/or "uninformed outside stockholder interference" (Bonnevier & Børke, 2014).

2.3.4 Taking advantage of favorable market conditions

Another reason for which financial borrowers may decide to issue preference shares is to take advantage of favorable market conditions at the time of issue (Elsaid, 1969). This was indeed the case for Ratos, where a low interest-rate environment coupled with a booming bond market pushed the Swedish company towards issuing preference shares in 2013 (Bonnevier & Børke, 2014). Brabenec et al. (2020) believe that the unprecedented period of low interest rates in Europe, due to the COVID-19 pandemic, has contributed to an enhanced inclination to issue preference shares by listed companies.

2.3.5 Enhancing debt capacity

As revealed by Fischer & Wilt (1968) and in Elsaid (1969)'s survey of over 300 PSIs, a preference share issue may help improve the issuing company's "borrowing base for subsequent or future debt financing". In other words, as argued by Donaldson (1962), once a company has utilized corporate debt to the acceptable limit of its debt capacity, preference shares can indeed be a satisfactory alternative.

2.3.6 Achieving desired financial reporting outcomes

Many research papers provide evidence of companies structuring financial decisions to achieve desired financial reporting outcomes (Levi & Segal, 2015; Shakespeare, 2020). Therefore, a company may decide to issue "debt-like hybrid securities that can be classified as equity" (Levi & Segal, 2015) instead of corporate debt for the purpose of lowering its gearing ratios and/or avoiding breaches in debt covenants (Chatfield et al., 2020).

2.3.7 Financial distress theory

The theory of financial distress, first posited by Donaldson (1962), hypothesizes that financially distressed companies are more inclined to issue preference shares. Unlike interest payments on debt, failure to make timely or full preference dividend payments does not trigger corporate bankruptcy since these are distributed at management's discretion.

Several studies, such as those of Bessa (2017), Chatfield et al. (2020), Lee & Figlewicz (1999), Moyer et al. (1987), Ravid et al. (2007), and Rolfsson & Åkerlind (2018) have found empirical evidence in support of this theory, showing that PSIs have lower profitability and interest coverage ratios, weaker balance sheet positions, as well as higher levels of gearing and bankruptcy risk than non-issuers.

However, freely suspending preference dividends can lead to undesirable repercussions in the form of a loss of shareholder confidence and potential damage to the market price of common equity (Chatfield et al., 2020; Suchard & Singh, 2006). Additionally, the non-payment of cumulative preference dividends "can be just as disastrous in the long run" as the failure to meet interest payments (Santow, 1962).

2.3.8 Strengthening regulatory capital: The case of banks

Cai (2016) and Callahan et al. (2001) revealed that, in the case of financial institutions, namely banks, regulatory requirements on capital adequacy are a dominant influence in their choice of issuing preference shares. "They provide evidence that banks issue preferred stock to increase their relative core capital levels" (Howe & Lee, 2006).

2.4 Barriers to Preference Share Issues

2.4.1 The complex nature of preference shares

Preference shares are more inherently complex compared to more traditional securities, such as 'plain vanilla' bonds and ordinary shares, which local investors are more accustomed to (Rizzo, 2021; Vernimmen et al., 2018). As further claimed by Donaldson (1962) and Laurent (2002), preference shares are often perceived to be "an added complication" to the company's existing capital structure. Additionally, the issuance of this hybrid security may restrain managerial decisions, owing to the need for a special shareholders' meeting and/or an assessment of the rights of different share classes (Vernimmen et al., 2018). Malta's capital market is not that sophisticated, and companies are rather small in nature and in assets under management. This may preclude organizations from seeking preference shares in comparisons with other debt instruments.

2.4.2 Taxation considerations

Countless foreign academic writers maintain that the greatest downside of preference shares compared to debt is their lack of tax relief because preference dividends are not deductible for income tax purposes (Moyer et al., 1987; Pike et al., 2015). For this reason, preference shares are often considered "debt with a tax disadvantage" (Chatfield et al., 2020), rendering the preference share route an expensive one relative to corporate debt (Elsaid 1969). However, the importance of debt's tax advantage over preference shares largely depends on the issuer's profitability and/or tax status, as well as the objectives of both issuers and investors (Ravid et al., 2007; Laurent, 2002). This could also be one of the considerations with regards to the Maltese organizations shying away from preference shares.

2.4.3 Potential conflicts of interest

Although Donaldson (1962) emphasized that "it is the responsibility of management to use preferred stock when it can reasonably do so". Cai (2016) and Korsmo (2013) claimed that the use of preference shares gives rise to serious and direct conflicts of interest between ordinary shareholders and preference shareholders, as "any preference granted to the preferred stockholders must necessarily come at the expense of the common stockholders" (Korsmo, 2013). This is especially true in Malta's context since, as already noted, Maltese companies are small in size and number, and the shareholders, directors, and Investment Committee members are nearly always the same few. Therefore, the potential for conflict of interest is large.

2.4.4 Negative market signals

Another potential deterrent to the issue of preference shares is the danger of sending negative signals to the market. A preference share issue may indicate that management perceives the future prospects of the company to be bleak or the risk of corporate bankruptcy to be high, as a company with positive earnings is expected to finance itself with a cheaper instrument like debt (Chatfield et al., 2020). Kallberg et al. (2013) and Linn & Pinegar (1988) also documented a negative ordinary share response to the announcement of a preference share issue, although the effect of this decreases with increased transparency and creditworthiness of the PSI.

2.5 The Role of Preference Shares in the Corporate Capital Structure

The role of preference shares in the corporate capital structure has been a subject of debate among financial writers over the years, with varying perspectives on their future outlook and significance.

Fischer & Wilt (1968) took a pessimistic stance, suggesting that preference shares might diminish in importance within corporate financial structures. They speculated that corporations might opt for simpler capital structures, potentially leading to preference shares holding only a minor place, if any, in the corporate financial landscape.

Santow (1962) shared a similar outlook, suggesting that the declining trend in the sale of preferred stock would eventually render it uncommon in corporate markets. This perspective hints at a broader shift in corporate financing preferences away from preference shares.

In contrast, Elsaid (1969) offered a more optimistic view, emphasizing the practical function that preference shares fulfill within corporate financial planning. By highlighting the specific utility of preference shares, Elsaid implied that they possess enduring qualities that make them valuable tools for companies in managing their capital structures.

Locally, the issuance of preference shares by one MLC has sparked a revival of interest in this financial instrument, as noted by Rizzo (2021). Rizzo (2021)'s observation of the recent revival of preference shares, exemplified by the issuance by one MLC, underscores the ongoing relevance of this financial instrument. The fact that companies are still leveraging preference shares to raise capital suggests that they continue to hold appeal for both issuers and investors, despite earlier predictions of their decline.

In synthesizing these viewpoints, it becomes apparent that the role of preference shares in corporate capital structures is subject to various factors, including market preferences, regulatory environments, and economic conditions. While some foresee a potential decline in their prominence, others argue for their enduring value and importance. The real-world example provided by Rizzo (2021) adds weight to the argument for the continued relevance of preference shares, indicating that they remain a viable option for companies navigating the complexities of capital markets.

2.6 The Context of Malta's Capital Market

Malta's capital market is regulated by the MFSA, which oversees the conduct of market participants and ensures compliance with relevant laws and regulations. The regulatory framework aims to promote investor protection, market integrity, and financial stability. Its capital market infrastructure consists of various entities, including stock exchanges, central securities depositories, and clearing and settlement systems. These infrastructure components facilitate the trading, clearing, and settlement of securities transactions in an efficient and secure manner.

Market participants include issuers, investors, intermediaries, and regulators. Issuers are companies that seek to raise capital by issuing securities, while investors are individuals or institutions that purchase securities for investment purposes. Intermediaries, such as stockbrokers and investment firms, facilitate transactions between issuers and investors.

It offers a diverse range of investment products, including equities, bonds, collective investment schemes, and alternative investment funds. These investment products cater to different investor preferences and risk profiles, providing opportunities for portfolio diversification and wealth accumulation.

However, despite being a small country with very limited resources and unsophisticated small investors, Malta's capital market continues to evolve and develop in response to changing market dynamics and regulatory requirements. Efforts are underway to enhance market transparency, efficiency, and accessibility, with initiatives aimed at promoting investor education and awareness.

All in all, Malta's capital market plays a crucial role in the country's economic landscape, providing businesses with access to funding and offering investors opportunities for wealth creation and financial growth. Through effective regulation, market infrastructure, and investor participation, Malta's capital market contributes to the overall resilience and competitiveness of the Maltese economy (MFSA, 2018).

In Bonello (2019)'s conclusion from "Understanding the Investor: A Maltese Study of Risk and Behavior in Financial Investment Decisions," several steps can be identified to strengthen the connection between relevant theories and Malta's capital market context. She emphasizes the importance of empirical research to understand investor behavior and decision-making processes in the Maltese context. By conducting empirical studies that apply relevant theories to Malta's capital market, researchers can gain insights into how theoretical frameworks manifest in real-world investment decisions.

Her conclusions underscore the relevance of behavioral finance theories in explaining investor behavior. Applying behavioral finance concepts, such as prospect theory and behavioral biases, to analyze investor behavior in Malta's capital market can provide valuable insights into deviations from traditional financial theories.

Bonello (2019) discusses the dynamic nature of financial markets and the need for research to adapt to changing market conditions. Researchers studying Malta's capital market should consider how market dynamics, such as regulatory changes and economic fluctuations, influence the applicability of traditional financial theories.

The conclusion highlights the importance of research findings in informing policy decisions and market regulations. By linking theoretical frameworks to practical policy implications, researchers can contribute to the development of effective regulatory frameworks that promote investor protection and market efficiency in Malta.

Incorporating these insights from Bonello's conclusion, researchers can strengthen the connection between relevant theories and Malta's capital market context by conducting empirical studies grounded in behavioral finance theories, considering market dynamics, and addressing policy implications. This approach will enhance the understanding of the factors influencing investor behavior and decision-making processes in Malta's capital market, ultimately contributing to the development of a robust theoretical framework tailored to the Maltese context.

Bonello (2019) identifies that Maltese investors exhibit varying degrees of risk perception, with some investors being risk-averse while others are more risk-tolerant. This finding suggests that investor risk preferences play a significant role in shaping investment decisions in Malta's capital market. She highlights the presence of behavioral biases among Maltese investors, such as overconfidence and loss aversion. These biases can influence decision-making processes, leading to suboptimal investment outcomes.

The study suggests that Maltese investors rely on a variety of sources for financial information, including traditional media, financial advisors, and online platforms, and identifies specific investment preferences among Maltese investors, including a preference for familiar and tangible assets such as real estate. This insight into investor preferences can inform the development of investment products and services tailored to the needs of the Maltese market.

2.7 Comparison with Other Small Countries

While preference share issuance in Malta's capital market has been limited, a comparative analysis with other small economies or island states can shed light on the factors influencing preference share utilization and its implications for capital market development. This comparative analysis of small countries, islands, and states highlights the importance of market maturity, regulatory frameworks, and investor preferences in shaping preference share utilization in small economies.

Bermuda, like Malta, is a small island state with a relatively small capital market. Preference share issuance in Bermuda has also been limited, primarily due to similar factors such as investor preferences and market dynamics. However, Bermuda's capital market has seen sporadic preference share issuances, particularly in sectors such as insurance and reinsurance, where regulatory requirements and capital adequacy considerations play a significant role. Despite these similarities, differences in regulatory frameworks and investor demographics between Malta and Bermuda may contribute to variations in preference share utilization.

Cyprus, another small economy, has experienced a more significant presence of preference shares in its capital market compared to Malta. Preference shares are often utilized by Cypriot companies, particularly in sectors such as banking and real estate, to diversify funding sources and manage capital structures efficiently. The preference share market in Cyprus benefits from a more robust regulatory framework and investor appetite for income-generating securities. These factors contribute to a higher prevalence of preference share issuances in Cyprus relative to Malta.

Slovenia is another small economy with a developing capital market. In Slovenia, preference share issuance has historically been modest, reflecting similar trends observed in Malta. However, Slovenia has seen sporadic preference share issuances, particularly in sectors such as utilities and infrastructure, where long-term financing needs and regulatory considerations influence capital structure decisions. Despite these similarities, differences in market maturity and investor preferences between Malta and Slovenia may contribute to variations in preferred share utilization. While both Malta and Slovenia have experienced limited preference share issuance, Malta's capital market ecosystem differs in certain aspects. Malta has traditionally relied on debt and common equity as the primary sources of financing, with preference shares playing a minor role. In contrast, Slovenia has seen greater diversity in financing instruments, including preference shares, reflecting a broader investor base and deeper capital market infrastructure.

Luxembourg is another small economy with a well-established financial sector. However, preference share issuance in Luxembourg has been more prevalent compared to Malta. Luxembourg's capital market benefits from a sophisticated regulatory framework, a diverse investor base, and a favorable tax environment, which have contributed to the popularity of preference shares among companies seeking alternative financing options. Preference shares are commonly utilized in Luxembourg across various sectors, including banking, investment funds, and real estate, reflecting their versatility and attractiveness to investors. However, preference share issuance in Luxembourg has been more prevalent compared to Malta. Luxembourg's capital market benefits from a sophisticated regulatory framework, a diverse investor base, and a favorable tax environment, which have contributed to the popularity of preference shares among companies seeking alternative financing options.

Preference shares are commonly utilized in Luxembourg across various sectors, including banking, investment funds, and real estate, reflecting their versatility and attractiveness to investors.

The Baltic states of Latvia, Lithuania, and Estonia share similarities with Malta in terms of size and economic structure. However, preference share issuance in these countries has been relatively limited, mirroring trends observed in Malta. Despite similarities, differences in market maturity, regulatory frameworks, and investor preferences contribute to variations in preferred share utilization across the Baltic states. While preference shares may be occasionally issued in sectors such as banking and utilities, they have not gained widespread popularity compared to other financing instruments.

In contrast to Malta, Liechtenstein may have a more established preference share market. While both countries share similarities in terms of size and economic structure, differences in regulatory frameworks, market depth, and investor demographics may contribute to variations in preference share utilization. Liechtenstein's capital market ecosystem may offer a wider range of financing instruments, including preference shares, which cater to diverse investor preferences and capital-raising needs.

The comparative analysis highlights the nuanced dynamics that influence preference share utilization in small economies or island states. While Malta shares similarities with jurisdictions like Bermuda in terms of limited preference share issuance, there are lessons to be learned from the experience of countries like Cyprus, where preference shares play a more prominent role in the capital market. Insights from comparative analysis can inform policymakers, regulators, and market participants in Malta on potential strategies to promote preference share utilization, enhance capital market liquidity, and support economic growth.

Insights from the experience of the countries mentioned above can inform policymakers, regulators, and market participants in Malta on potential strategies to promote preference share issuance, enhance capital market liquidity, and foster economic growth. These strategies may include regulatory reforms to streamline preference share issuance processes, investor education initiatives to raise awareness about preference shares, and market development efforts to attract investment capital to Malta's capital market.

The preference for share issuance in small economies or island states varies depending on regulatory frameworks, investor preferences, and market dynamics. Comparative analysis with jurisdictions like Bermuda and Cyprus provides valuable insights into the determinants of preference share utilization and its implications for capital market development. By understanding these dynamics, Malta can explore opportunities to enhance preference share issuance and strengthen its capital market ecosystem. (IMF, 2024; World Bank, 2019).

3. Methodology

3.1 The Research Tool and its Limitations

Semi-structured interviews were deemed to be the most suitable research tool to fulfill the study's objectives. The semi-structured interviews were based on a pre-determined interview schedule consisting of a "blend of closed- and open-ended questions, often accompanied by follow-up why or how questions," to allow for further probing (Adams, 2015; McIntosh & Morse, 2015). The first five interview questions served as an introduction to the research topic, touching on the nature of preference shares and their features. Section A of the interview schedule dealt with the extent of the use of preference shares by MLCs. Section B covered the barriers and determinants of preference share issues, and Section C considered the future use of preference shares within the local listed market (see Appendix A1 and A2).

One limitation of such semi-structured interviews could have been their inherent flexibility, as the lack of standardized questioning could have led to some variability in the information collected. Yet, such a limitation was mitigated by retaining the same interviewer for all interviews. Furthermore, whenever such a limitation was noted, the interviewer placed follow-up questions as deemed necessary. In addition, the risk of researcher bias or interpretation variance could not be thoroughly eliminated, as the open-ended nature of some of the questions allowed for subjective analytical judgments and reporting of interview data. Nevertheless, such a limitation was mitigated by the first two co-authors carrying out in-depth discussion throughout the whole process.

The main target group for this study was MLCs. However, to obtain a broader picture of the Maltese preference share market, interviews were also conducted with a MSE representative, two local stockbrokers, and a financial advisor (FA) of a local Big Four firm. Three interview schedules were formulated for this study, distinguishing between three main groups: PSIs, non-issuing MLCs, and the remaining research participants.

The study also sought to investigate Donaldson (1962)'s hypothesis that firms issuing preference shares are more likely to be financially distressed, for which different quantitative techniques were employed for each of the two local PSIs. These techniques were based on the following accounting ratios (see Table 1), selected on the basis of: i) their degree of popularity in previous foreign and local studies relating to financial distress; ii) their ability to capture four key financial aspects, namely profitability, liquidity, solvency, and gearing; and iii) the extent of financial information available (Bunyaminu & Issah, 2012).

For each of the two PSIs, the above ratios were computed on the basis of their publicly available financial statements for three consecutive financial periods. The chosen three-year period for PSI B (2018–2020) represented the three years preceding the year in which the preference share issue was made (2021). Whereas in the case of PSI A, due to having changed its year-end from March 31st to January 31st in the year in which it issued its preference shares (i.e., 1995), the financial periods 1993/4, 1994/5, and 1995/6 were analyzed in order to adequately capture the financial performance of the company prior to its preference share issues.

Table 1. Breakdown of the selected ratios

Ratio	Formula	Description
Net Profit Margin	$\frac{\text{Profit for the Year}}{\text{Revenue}}$	A profitability ratio that expresses the post-tax profit for a given financial year in terms of the total revenue generated in that same year. This is a good measure of a company's overall financial health (Chatfield et al., 2020).
Return on Assets	$\frac{\text{Earnings Before Interest and Tax}}{\text{Total Assets}}$	A profitability ratio, derived from Altman's (1968) Z-score, which gauges the entity's ability to effectively use its assets to generate earnings. According to Balzan (2020), this measure is the greatest predictor for corporate failure amongst local companies.
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	A liquidity ratio that indicates the company's ability to meet its immediate obligations. Zammit (2005) showed that this ratio has significant power to predict the bankruptcy potential of local companies.
Interest Coverage Ratio	$\frac{\text{Earnings before Interest and Tax}}{\text{Interest Expenses}}$	This ratio reflects the entity's capacity to cover its interest obligations from its earnings. The lower the ratio, the more likely it is for the company to default on its debt commitments (Chatfield et al., 2020).
Debt To Equity Ratio	$\frac{\text{Debt}}{\text{Equity}}$	This ratio captures the company's proportion of debt to equity, i.e., its level of gearing. It is commonly utilised to evaluate financial risk (Rolfsson & Åkerlind, 2018).
Cash Debt Coverage Ratio	$\frac{\text{Cash Flow from Operations}}{\text{Debt}}$	This is a solvency ratio which directly compares a company's operating cash flows to its total debt. Beaver (1966) reveals that this is the best predictor of corporate failure.

Source: Authors' compilation

3.2 The Sample Population

For the purpose of this study, a list of all the Maltese companies having either a debt or equity listing or both on the MSE as of September 30, 2022, was obtained from the MSE website. A total of 27 interviews were conducted in face-to-face meetings following a meeting request and a set appointment. 22 of which were carried out with MLCreps, and a further four interviews were conducted with an MSE representative, two stockbrokers, and a financial advisor. Requests were made to speak to Chief Financial Officers (CFOs) or finance managers of MLCs, yet MLCreps also encompassed an accountant, a Chief Operating Officer, and a company director, as these were able to provide better insight into the research topic.

The companies that were subjected to the financial distress analysis were the two companies that issued preference shares in Malta (PSI A and PSI B) in December 1995 and April 2021, respectively. The control group for PSI B consisted of the four other non-issuing MLCs that operated within the same industry.

3.3 Data Analysis and Other Limitations

Qualitative data was compiled from the interview questions. Responses from the interview questions were transcribed on an MS Word document and subsequently analyzed and coded manually to identify differences and "consolidate themes found in multiple answers and to supplement them with well-chosen illustrative quotations" (Adams, 2015). Memos of the qualitative data were also electronically generated to document any initial reflections and interpretations, as well as encourage critical and reflexive thinking (Kalpokaite & Radivojevic, 2019; Lester et al., 2020).

Quantitative data was extracted from the financial statements of the two PSIs, and the selected ratios were calculated. This data was first entered into an MS Excel spreadsheet and then entered into SPSS version 26. An independent one-sample t-test was used to compare the six sample mean ratios of a group of four non-issuing listed companies with the ratios calculated for PSI B for each of the three years 2018–2020. However, no suitable industry control group could be assembled for PSI A, given that there were no comparable listed companies at the time of its preference share issues. Hence, in the case of PSI A, trend analysis and a calculation of Altman (1968)'s Z-score were performed for the three-year period under review instead.

The study was limited by the fact that 19 MLCs refused to participate in the research study on account of their limited level of knowledge and experience with preference shares. As already implied in Section 3.1, interpretation bias in the evaluation of interviewee responses as well as in the computation and analysis of the chosen ratios was inevitable but controlled as much as possible by discussing them with peers. Additionally, there were only two PSIs in Malta, restricting the generalizability of the findings relating to the reasons for the public issuance of preference shares and the results from the financial distress analysis. Although the sample included 100%, this further hampered the possibility of meaningful comparisons and the use of more sophisticated statistical tools.

4. Results

4.1 Preference Shares and Their Features

The first two preliminary questions sought to elicit interviewees' understanding of preference shares and their associated features.

4.1.1 The hybrid nature of preference shares

All interviewees (23/23MLCreps, 2/2 Stockbrokers, MSErep,FA) acknowledged the hybrid character of preference shares, "having its leg in two different places... being neither one nor the other." The majority of interviewees (17/23 MLCreps, 2/2 Stockbrokers, MSErep,FA) recognized that the features attributable to preference shares will ultimately render them nearer to debt or to equity.

More than half of the MLCreps (16/23 MLCreps) were unfamiliar with the accounting classification of preference shares as per IAS 32, due to having never explored preference shares as a means of financing.

4.1.2 The attractiveness of preference shares and their features

The most favored characteristics of preference shares among interviewees were: the fixed dividend (19/23 MLCreps, 2/2 Stockbrokers, MSErep,FA), the redeemable feature (13/23 MLCreps,FA), the lack of voting rights granted to holders of such an instrument (11/23 MLCreps, 2/2 Stockbrokers, MSErep,FA), the non-cumulative feature (6/23 MLCreps), as well as no assets tied as security (4/23 MLCreps).

4.1.3 Flexibility of preference shares

Several interviewees (5/23 MLCreps, 1/2 Stockbrokers, FA) sustained that one of the compelling advantages of preference shares is their flexibility, such that they can be customized to accommodate the financing needs of the entity. Yet, one of the stockbrokers (1/2 Stockbrokers) believed that such flexibility is often underappreciated by MLCs, compromising their ability to exploit preference shares' full potential.

4.2 The Use of Preference Shares by MLCs

4.2.1 Preference share issues in Malta

In Malta, there have been only two PSIs. In 1995, PSI A issued two simultaneous preference share issues with debt-like features: straight, a fixed coupon, redeemable, cumulative, and no voting rights. By contrast, the preference shares issued by PSI B in 2021 were perpetual, non-cumulative, and offered the holder the right to participate in the distribution of dividends but not the right to vote.

The absolute majority (17/20 non-issuing MLCs) of the remaining non-issuing MLCs (20/22 MLCs) denied having ever considered publicly issuing preference shares, due to having sufficiently satisfied their financing requirements through debt and/or common equity issues. Some interviewees (9/23 MLCreps, 1/2 Stockbroker) struggled to identify "any particular or material advantage" of having preference share capital that could sufficiently appeal to a listed entity to issue them.

4.2.2 The use of preference shares as a last resort

A common stance held by interviewees (9/23 MLCs, 1/2 Stockbroker, and MSErep) on preference shares was that they are a financing of last resort, such that preference shares are only issued by MLCs if no other alternative funding options are available or they "have their back against the wall" in terms of access to financing sources.

4.3 Reasons for Local Preference Share Issues

4.3.1 Addressing financing needs and supporting corporate growth

According to the stockbrokers/MSErep/FA, the underlying raison d'être behind a public offering of any instrument is to raise capital to support the issuing company's upcoming investment projects and its future growth prospects. At the time of issue, both local PSIs were pursuing aggressive investment plans to further expand their operations.

The current CFO of PSI A explained that the company issued redeemable preference shares to provide PSI A with the necessary funds for a specified timeframe, during which the company's projects were expected to be completed. Contrarily, PSI B's CFO divulged that their preference shares were issued as perpetual because of the long-term nature of their forthcoming projects.

4.3.2 Maintaining a balanced capital structure

As argued by both interviewed stockbrokers, a preference share issue can help the company maintain a balanced capital structure and increase or decrease the cost of capital accordingly. The CFO of PSI B confirmed that the listed entity wanted to achieve a target total equity ratio by solidifying its equity base and providing the necessary debt capacity later on. Likewise, PSI A's prospectus stipulated that one of the reasons for which the company was seeking new capital was "to strike a prudent balance between shareholders' funds and external borrowings".

4.3.3 Retaining voting control

The CFO of PSI B divulged that the company's main motivation for issuing preference shares was to retain voting control since preference shareholders were not granted any voting rights. Hence, PSI B's preference share issue was used "as a protective measure against the hostile takeover," thereby preventing an external party from overthrowing the company's present majority shareholder. Moreover, eleven respondents (7/23 MLCreps, 2/2 Stockbrokers, MSErep,FA) deemed that increasing the equity base without relinquishing control is one of the few valid reasons for the public issuance of preference shares.

4.3.4 Taking advantage of market conditions

Unlike PSI B, PSI A's decision to issue preference shares was mainly driven by the dynamics of the Maltese market in 1995. At the time of issue, the MSE had only just been incepted, and the local debt market was still largely underdeveloped. Hence, as recounted by the former CFO of PSI A, preference shares were deemed to be the ideal "first step to test the appetite of the market for public issues from the company." Furthermore, since the market expectation during those times was for listed bonds to be secured, preference shares enabled the company to avoid having to pledge its assets as collateral.

4.3.5 Enhancing debt capacity

The CFO of PSI B admitted to having issued preference shares to be able to take on additional debt financing for its prospective projects. The 2021 prospectus further described that a portion of the proceeds from the company's public offer was meant to pay back its short-term bank facilities, which were taken to finance the company's capital expenditure as part of its growth strategy. Contrariwise, the present CFO of PSI A claimed that there was no conscious debt capacity-enhancing strategy for their preference share issues.

4.3.6 Achieving desired financial reporting outcomes

There was widespread agreement among interviewees (18/23 MLCreps, 1/2 Stockbrokers, MSErep,FA), including both PSIs, that, as declared by one MLCrep (1/23 MLCreps), "the financing decision will hinge on other factors other than financial reporting implications." On the other hand, five interviewees (4/23 MLCreps, 1/2 Stockbrokers) stated that financial reporting implications are a key consideration when the listed entity is over geared, in which case the MLC would seek to structure the preference shares with equity-like features so as to ensure an equity classification in the balance sheet, thereby improving its debt-to-equity ratio.

4.3.7 Financial Distress

The majority of interviewees (16/23 MLCs, 2/2 Stockbrokers, MSErep,FA) acknowledged that an MLC's right not to distribute a dividend in a given year (whether temporarily or permanently) is a valued feature of preference shares, particularly during times of financial distress. Nevertheless, numerous interviewees (18/23 MLCs, 1/2 stockbrokers, and FA) generally disagreed that a financially troubled company would be more inclined to issue preference shares for several reasons.

Many MLCreps (14/23 MLCreps, 1/2 Stockbrokers, and MSErep) admitted that failure to guarantee a dividend payment is unlikely to be well-received in the market, given the nature of the local investor base. It was further pointed out by six MLCreps (6/23 MLCreps) that this feature is not exclusive to preference shares since the distribution of ordinary dividends is likewise at management's discretion. Another concern expressed by six respondents (4/23 MLCreps, 1/2 Stockbrokers, and MSErep) is the potential adverse impact of a preference dividend omission on the reputation and market valuation of the company.

However, other interviewees (5/23 MLCs, 1/2 stockbrokers, and MSErep) believed that in times of financial distress, MLCs may be more inclined to explore all possible financing options, including preference shares.

Findings of the financial distress analysis

Preference Share Issuer A (PSI A)

As illustrated in Table 2 below, PSI A experienced an overall worsening in its profitability, gearing, and solvency levels in the 10-month period ending January 31, 1996, in comparison to the preceding two financial years.

Furthermore, the equity Figure 1 and Figure 2 included in the debt-to-equity ratio and Z-score for the financial period 1995–2006 (in Table 2) incorporates the preference shares issued by the company in December 1995. If such preference shares are excluded from the calculation of the said ratios, the debt-to-equity ratio increases to 40.38% and PSI A's Z-score falls to 2.66, as depicted in Table 3.

As summarized in Table 4, all six chosen ratios (except the current ratio for 2019) indicate that PSI B was in a weaker financial position than its industry peers during the years 2019 and 2020. Yet, only the net profit margin, interest cover, and debt-to-equity ratio yield significant results, at least one year prior to PSI B's 2021 preference share issue.

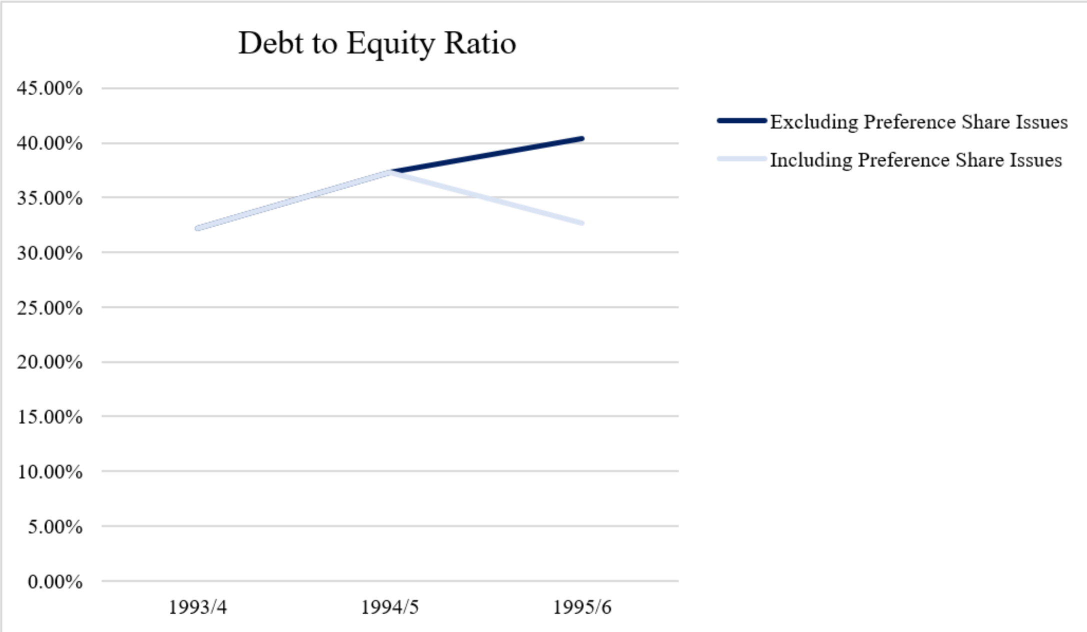

Figure 1. Debt to equity ratio of PSI A over a three-year period
Source: Authors' Compilation

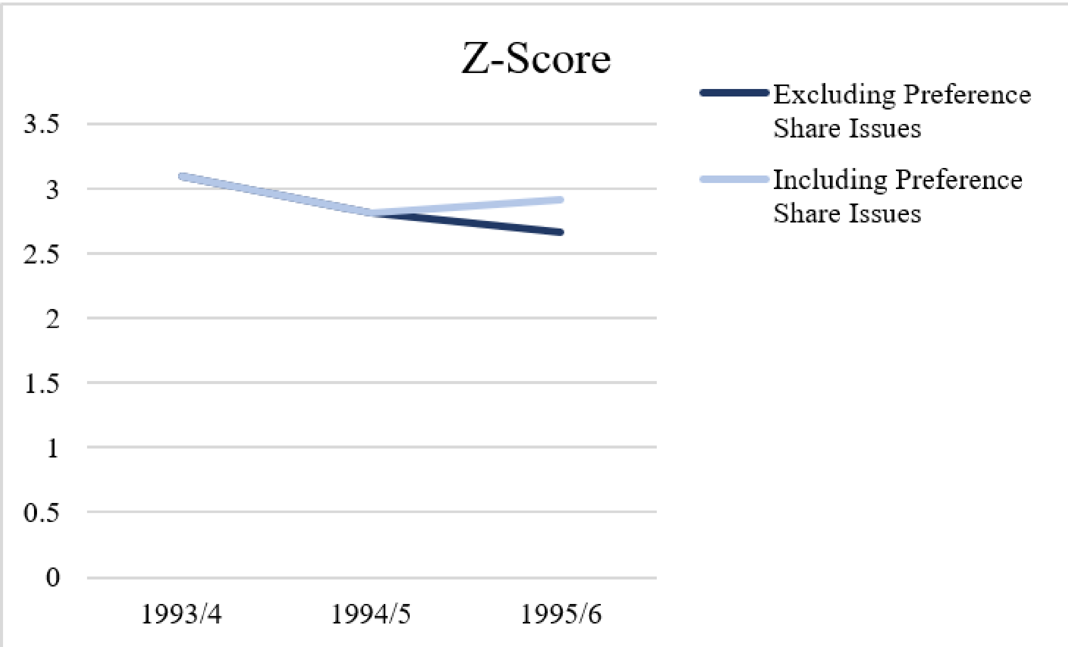

Figure 2. Z-score of PSI A over a three-year period with and without the preference share issues
Source: Authors' Compilation

Table 2. Computed ratios of PSI A for a three-year financial period and yearly percentage changes

	Accounting Ratio	Financial Period				
		1993/4	% change	1994/5	% change	1995/6
Profitability	Net Profit Margin	5.28%	→ +2.14%	7.42%	→ - 2.85%	4.57%
	Return on Assets	8.69%	→ +0.02%	8.71%	→ - 3.93%	4.78%
Liquidity	Current Ratio	1.58	→ - 5.06%	1.50	→ + 23.33%	1.85
Gearing/Solvency	Interest Cover	6.03	→ +18.08%	7.12	→ - 49.30%	3.61
	Debt to Equity Ratio	32.23%	→ +5.08%	37.31%	→ - 4.66%	32.65%
	Cash Debt Coverage Ratio	0.82	→ - 32.93%	0.55	→ - 50.91%	0.27
Financial Distress	Z-Score	3.09		2.81		2.91

Source: Authors' Compilation

Table 3. Debt-to-equity ratio and Z-score of PSI A before and after taking into account the preference share issues in the 1995/6 financial statements

	Including Preference Share Issues	Excluding Preference Share Issues
	1995/6	
Debt-to-Equity Ratio	32.65%	40.38%
Z-Score	2.91	2.66

Source: Authors' Compilation

Table 4. Statistical results re PSI B of one-sample t-test with significant differences displayed in bold

Ratio	2018			2019			2020		
	Mean Non-Issuing Group	Ratio of PSI B	*P* value	Mean Non-Issuing Group	Ratio of PSI B	*P* value	Mean Non-Issuing Group	Ratio of PSI B	*P* value
Net Profit Margin	10.89	12.96	0.688	14.99	-14.50	**0.004**	7.473	-22.21	**0.016**
Return on Assets	21.755	23.66	0.869	26.473	-6.27	0.055	74.983	-9.41	0.236
Current Ratio	0.595	1.42	**0.024**	0.773	0.91	0.633	0.755	0.5	0.631
Interest Cover	35.04	123.40	0.06	20.903	-18.67	**0.045**	17.175	-13.05	**0.049**
Debt to Equity Ratio	19.303	4.84	0.237	16.933	28.25	0.519	29.02	166.38	**0.011**
Cash Debt Coverage	0.09	0.03	0.893	2.657	-0.28	0.30	3.103	0.23	0.214

Source: Authors' Compilation

Indeed, PSI B had a significantly lower net profit margin and interest cover than non-issuing firms in both 2019 and 2020, reflective of the significant losses the company suffered during the two-year period and its inability to cover its interest payments as a result. Furthermore, the debt-to-equity ratio of PSI B in 2020 was significantly higher than the mean ratio for the industry control group, indicative of the threefold increase in the company's level of borrowing and the heavy drop in equity value over the prior year.

The debt-to-equity ratio measures the proportion of a company's financing that comes from debt compared to equity. A higher ratio indicates that the company is relying more heavily on debt to finance its operations, which can be concerning as it implies higher financial risk and potentially unsustainable levels of debt.

In this case, PSI B had a significantly higher debt-to-equity ratio in 2020 compared to the mean ratio for the industry control group. This suggests that PSI B increased its level of borrowing significantly compared to its equity value. Such a significant increase in the debt-to-equity ratio is indicative of financial distress and may signal that the company's capital structure is not well-balanced or sustainable. In 1995, PSI A demonstrated a similar situation.

An unsatisfactory level for the debt-to-equity ratio can vary depending on the industry and specific circumstances of the company. However, in general, a debt-to-equity ratio that is much higher than industry norms or historical levels may be considered unsatisfactory, as it indicates heightened financial risk and potential difficulties in servicing debt obligations.

4.4 Barriers to Preference Share Issues

4.4.1 Limitations of the local market

When questioned on the main barriers to the use of preference shares, all interviewees (23/23 MLCreps, 1/2 Stockbrokers, MSErep,FA) referred to one or more aspects of the Maltese market.

Low market appetite

Twelve interviewees (8/23 MLCreps, 2/2 Stockbrokers, MSErep,FA) asserted that a significant barrier to the decision to issue preference shares is the absence of market appetite for such an investment product in the local scenario. As observed by many interviewees (14/23 MLCreps, 2/2 Stockbrokers, MSErep,FA), the local market is predominantly a bond market. Therefore, due to the relatively low cost and ease with which MLCs can raise the necessary finance through debt, MLCs have little incentive to issue preference shares.

Several interviewees (4/23 MLCs, 1/2 Stockbrokers, FA) also claimed that advisors and stockbrokers often do not recommend MLCs to issue preference shares, perceiving them to be “a very hard sell”. Moreover, a frequently raised concern among respondents (13/23 MLCs, MSEreps,FA) is the risk that preference shares are not sufficiently taken up by the public, which would cause the issuing company to “make a fool of itself,” possibly resulting in a reduction in the MLC’s share price. Four interviewees (2/23 MLCs, 1/2 stockbrokers, and MSErep) emphasized that, considering the significant amount of funds and effort involved in issuing shares on a regulated market, no MLC can afford to run the risk of the issue not being successful.

Market conditions and market rates of interest

Respondents (11/23 MLCs, 1/2 Stockbrokers, MSErep, FA) argued that with increasingly rising market interest rates following the Russia-Ukraine war, as well as the recent government stock issue at a rate of 4%, it is becoming an even greater challenge for MLCs to offer preference shares at attractive rates since the rate of return on preference shares is expected to be higher than that of bonds.

The state of the Maltese market

According to respondents (9/23 MLCreps, 2/2 Stockbrokers, MSErep,FA), the state of the Maltese market presents an added problem to the issuance of preference shares due to it being relatively small compared to foreign markets, characterized by companies having “simple” capital structures and needing more time to mature. Interviewees (5/23 MLCreps, 1/2 Stockbrokers, MSErep,FA) stated that the lack of liquidity in the local preference share market may also negatively impact the demand for and, in turn, the supply of preference shares due to the difficulty for preference shareholders to find willing buyers to sell their shareholding in the secondary market.

Characteristics of local investors

Some interviewees (5/23 MLCreps, 2/2 Stockbrokers, MSErep,FA) noted that while in international markets, numerous investors are institutional investors with diversified investment portfolios and hence might be willing to take up preference shares, in Malta, the participation and existence of such investors are minimal. Instead, conservative retail investors, most of whom are retirees, make up most of the existing cohort of public investors.

4.4.2 The attractiveness of preference shares to investors

A prevailing dilemma faced by MLCs when it comes to issuing preference shares is how “to draw the line between making a preference share that is attractive to both the issuer and the investor.” MLCreps (17/23 MLCreps) stated that preference shareholders assume a lot of risk without receiving any real or significant benefit in return. It was further argued by interviewees (6/23 MLCreps,FA) that unless preference shares provide holders with an exceedingly high return, such an instrument will not be an attractive investment opportunity, seeing that investors can “subscribe to a bond with less risk and a guaranteed return.”.

4.4.3 Lack of knowledge of preference shares

All interviewees (23/23 MLCreps, 2/2 Stockbrokers, MSErep, and FA) unanimously concurred that Maltese individual investors are not familiar with preference shares and their inherent complexities. This was discerned to be a substantial deterrent to the issue of preference shares by a few MLCreps (5/23 MLCreps), due to posing on MLCs the burden of informing the market on such securities prior to issuing them.

Additionally, the two interviewed stockbrokers and the FA intimated that some brokers are not even fully aware of the features of preference shares. Moreover, twelve MLCreps (12/23 MLCreps) also admitted to not having a thorough grasp of the subject.

4.4.4 The perceived complexity of preference shares

One frequently mentioned barrier was the perceived complexity of preference shares due to their vast array of features, with a common sentiment amongst interviewees (10/23 ML Creps, 1/2 Stockbrokers, MSErep,FA) being that preference shares are "an unnecessary complication." Given local investors' fixation with bonds and the difficulty in explaining the technicalities of preference shares to investors, five interviewees (4/23 MLCreps,FA) expressed their preference towards more straightforward instruments.

Multiple MLCreps (9/23 MLCreps) voiced their concern about the likelihood that preference shares are categorized as complex financial instruments according to MiFID requirements, a classification they fear would further restrict the number of eligible investors due to the obligation of investment firms to conduct an appropriateness test on investors, thereby dissuading MLCs from issuing such an instrument.

4.4.5 Taxation considerations

Various interviewees (13/23 MLCreps, 2/2 Stockbrokers, MSErep,FA) agreed with the statement that preference shares are "debt with a tax disadvantage," while others perceived this to be an "overgeneralization.". Although many interviewees (10/23 MLCreps, 2/2 Stockbrokers, MSErep,FA) recognized the importance of the tax deductibility of interest due to its impact on the cost of financing, several MLCreps (8/23 MLCreps) believed that the tax implications would not be a major consideration in the issuance of preference shares. A further three interviewees (3/23 MLCs) highlighted that the importance of taxation to the decision to issue preference shares also heavily depends on the MLC's tax position.

4.4.6 Actual and perceived conflicts of interest

Responses as to whether preference shares give rise to conflicts of interest between different stakeholders within MLCs were divisive. Most MLCs (15/23MLCreps, 1/2 Stockbrokers, FA) did not envisage there to be any potential conflicts upon the introduction of preference shares, provided that the terms of the preference share issue are clear and the right company policies are in place stipulating management's duty to act in the best interest of all stakeholders.

The remaining interviewees (8/23 MLCreps, 1/2 Stockbrokers, and MSE) stated that ordinary equity holders would not be pleased with the entry of additional outsiders being given precedence over them in the receipt of dividends and residual assets, especially in the event of a liquidation. Conflicts were also deemed to arise if preference shareholders were to be given voting rights or a convertibility option, as these would dilute the control and ownership of existing ordinary shareholders.

4.4.7 Market reaction to preference share issues

Actual reaction to the local preference share issues

The preference shares issued by PSI A were fully subscribed, whereas only a third of those issued by PSI B were taken up by the public. The present-day and former CFOs of PSI A attributed the public's positive response to their 1995 preference share issues to the company's strong reputation.

Although the CFO of PSI B was not perturbed by the comparatively low market acceptance of their preference share issue, the FA held a different view. According to the FA, PSI B's decision to issue a supplement to its prospectus, stating that the company shall proceed with the allotment and listing of the preference shares, irrespective of the amount subscribed for, may have signaled to the market the issuer's lack of confidence in its ability to raise the necessary amount, possibly discouraging potential investors in the process.

Expected reaction to the announcement of a preference share issue

Nine respondents (8/23 MLCreps, MSErep) presumed that the market reaction to a listed entity's announcement of a preference share issue would be positive as it would spark investors' interest. Conversely, seven respondents (6/23 MLCreps, 1/2 Stockbrokers) imagined that a preference share issue would cause investors to question the true motive behind the choice of financing, consequently resulting in an adverse market reaction and/or a fall in company value.

The remaining interviewees (7/23 MLCreps, 1/2 Stockbrokers, FA) stated that the success of a preference share issue depends on the extent of complexity (3/23 MLCreps) and type of features (4/23 MLCreps) of preference shares, the reputation and performance history of the issuer (5/23 MLCreps,FA), and the ability of financial intermediaries to successfully market the issue (4/23 MLCreps, 1/2 Stockbrokers, FA).

4.4.8 Strengthening core capital: The case of banks

There was a consensus among all four CFOs of the interviewed Maltese listed banks (4/22 MLCs) that they have little incentive to issue preference shares over ordinary shares since the latter automatically qualify as a CET 1 instrument, as opposed to the former. Nevertheless, the listed banks' representatives (4/23MLCreps) clarified that convertible preference shares may be attractive due to their potential classification as core equity and thus their potential contribution to improving the regulatory capital of the bank.

4.5 The Future Use of Preference Shares

4.5.1 The potential role of preference shares in the capital structure of MLCs

Most MLCs (13/22 MLCs) stated that they are open to considering preference shares as a potential future financing option. Some of these MLCs (9/22 MLCs) further added that this is contingent on the future circumstances and needs of the entity (6/22 MLCs) and on advancements in the local capital market, including enhanced maturity (5/22 MLCs), increased demand for preference shares (4/22 MLCs), and improved knowledge of the instrument (3/22 MLCs).

On the other hand, other MLCs (9/22 MLCs), including all four listed banks, claimed to be unwilling to issue such a financial instrument due to being unable to envision any future scenario necessitating an injection of preference share capital.

To the thought of re-issuing preference shares, the CFO of PSI B replied in the affirmative, whereas the current CFO of PSI A answered that the company has no such intention at this stage.

The former CFO of PSI A/stockbrokers/MSErep/FA was skeptical about the increased utilization of preference shares by MLCs, deeming the growth of the Maltese preference share market to be a distant prospect. The current CFO of PSI A further proclaimed the belief that preference shares are "a dying breed of shares" on both a local and international level.

4.5.2 Suggestions for increasing the use of preference shares

The majority of interviewees (18/23 MLRs and 2/2 stockbrokers) stressed the urgent need for increased education on the subject of preference shares. According to one CFO, the responsibility for educating the market must be borne by issuers, stockbrokers, and regulators.

Some respondents (3/23 MLCs, 2/2 Stockbrokers, FA) argued that every MLC must keep investors continuously informed about their operations and embark on a more rigorous and sophisticated selling process through advertisement and roadshow presentations when it comes to preference shares. One of the stockbrokers further claimed that in the case of preference shares, the length of the offer period should be increased to provide investors with sufficient time to gain an understanding of the issuing entity and the instrument.

Many interviewees (11/23 MLCreps, 1/2 Stockbrokers, FA) also emphasized that stockbrokers must play a more active role in such issues. Another recommendation (3/23 MLCreps, 1/2 Stockbrokers) was for the provision of educational programs and training on preference shares to investors. Two MLCreps (2/23 MLCreps) mentioned that the MSE and the Malta Financial Services Authority (MFSA) should conduct general campaigns or provide specific courses on preference shares.

Nevertheless, some interviewees commented that "the market is what it is" and:

"Unless there are very clear compelling advantages, both from a company side and an investor side, the choice will always be common equity versus debt".

According to one CFO, the key to encouraging the use of preference shares is the establishment of a market maker for corporate bonds and equity in Malta, just as the Central Bank of Malta acts as a market maker for Malta Government Securities.

5. Discussion and Findings

5.1 The Perceived Nature and Attractiveness of Preference Shares and Their Features

5.1.1 Are preference shares debt or equity?

It is clear from the findings that preference shares are recognized as a hybrid instrument, which, as outlined by Korsmo (2013) and Laurent (2002), neither entirely resembles debt nor ordinary equity due to the extensive features they are attributed with. The findings indicate that knowledge of the accounting classification of preference shares as per IAS 32 and the substance over form principle' used to cater for the wide spectrum of preference shares is apparently lacking.

5.1.2 Which features are the most attractive to MLCs?

Although MLCs are aware of the broad spectrum of features that Korsmo (2013) and Rizzo (2021) referred to when it comes to preference shares, not all features are deemed to be attractive in equal measure. Due to their "highly heterogenous nature" (Korsmo, 2013), preference shares' greatest advantage, as identified by Bessa (2017), is the ability of the issuing company to tailor the terms of the issue in a manner that best accommodates its capital needs. Yet, this flexibility is not sufficiently appreciated by MLCs, possibly because they perceive the wide-ranging features to add to the instrument's complexity rather than flexibility.

5.2 The Lack of Preference Share Issues by MLCs

Out of a total of 80 companies listed on the MSE, only two have ever issued preference shares in Maltese history. The use of preference shares as a financing vehicle by MLCs "does not seem to have become established practice" (Bonnevier & Børke, 2014), and as with other European markets, debt and common equity remain the two most dominant sources of financing in the local domain.

Preference shares are also ranked as the least desirable of the possible sources of capital available to MLCs, such that MLCs are only truly interested in issuing preference shares when they have exhausted their ability to borrow from the bank or to issue debt and/or common equity issues are not a feasible alternative. This implies that MLCs only opt for preference shares as a 'last resort', as suggested by Bessa (2017) and Bonnevier & Børke (2014).

The limited adoption of preference shares as a financing vehicle by MLCs is a notable aspect of the local financial landscape. Despite the presence of 80 companies listed on the MSE, only two have ever issued preference shares. This scarcity underscores the prevailing sentiment among MLCs regarding the use of preference shares as a means of raising capital.

Bonnevier & Børke (2014) highlight that preference shares have not become an established practice among MLCs in Malta. Instead, debt and common equity remain the primary sources of financing in the local domain. This observation aligns with trends seen in other European markets, where preference shares have historically played a minor role compared to debt and common equity.

One of the reasons behind the limited use of preference shares by MLCs' perceived lack of attractiveness compared to other sources of capital. Preference shares are often considered the least desirable option among the available financing alternatives. This sentiment is reflected in the behavior of MLCs, who typically only consider issuing preference shares when they have exhausted other financing avenues.

Bessa (2017) further reinforces this notion by suggesting that MLCs resort to preference shares as a last resort. This implies that preference shares are seen as a fallback option, pursued only when borrowing from banks or issuing debt is no longer feasible, and common equity issuance is not a viable alternative.

The reluctance of MLCs to embrace preference shares as a primary financing instrument may stem from various factors. Preference shares often come with fixed dividend payments, which can be perceived as a financial burden during periods of financial strain. Additionally, preference shares may carry fewer voting rights than common equity, potentially diluting existing shareholders' control over the company.

Overall, the limited adoption of preference shares by MLCs in Malta reflects both the prevailing financial culture and the perceived drawbacks associated with this financing instrument. Despite their potential advantages, preference shares remain a niche option in the local financial landscape, utilized primarily as a last resort when other avenues for raising capital have been exhausted.

5.3 The Main Motives Behind Local Preference Share Issues

5.3.1 Fulfilling financing needs and growth objectives

In line with Houston Jr & Houston (1990), the underlying objective behind the two preference share issues listed on the MSE was to support the issuing companies' planned investment projects in their pursuit of further growth. According to the findings, it is also evident that PSI A and PSI B sought to purposely match the nature and duration of the financial instrument to the expected life of their investment projects.

5.3.2 Do preference shares help to maintain a balanced capital structure?

Consistent with the literature, the preference shares of the two local PSIs were intended to obtain a balance in their capital structure. Due to their equity classification in the financial statements of both PSI A and PSI B, the preference shares helped to balance out the issuing companies' high level of borrowings, thereby allowing the attainment of the right debt-to-equity proportion that maximizes company value while keeping the cost of capital to a minimum (Donaldson, 1962; Fischer & Wilt, 1968).

5.3.3 Are preference shares issued to retain voting control?

As acknowledged by various literary writers and interviewees alike, given the lack of voting rights typically granted to preference shareholders, raising equity while retaining voting control is one of the primary motives for preference share issues.

Indeed, through its 2021 preference share issue, PSI B, having a single majority shareholder, sought to "avoid uninformed outside stockholder interference" (Bonnevier & Børke, 2014), as well as reduce the threat of a hostile takeover, as asserted by Houston Jr & Houston (1990). Similarly, PSI A's choice to deprive its preferred shareholders of the right to vote in the company's general meeting may also signify the company's preference for the avoidance of diluting existing shareholder control.

5.3.4 Are preference shares issued to take advantage of prevailing market conditions?

The state of the market at the time of PSI A's public issue of preference shares demonstrated some truth behind Elsaid (1969)'s assertion that preference shares are issued by listed corporations to seize favorable market conditions. PSI A's issue in 1995 was during a particularly unique period in Malta, where the MSE and the bond market were still in their infancy. Moreover, the company's well-established brand name further enabled the company to gauge the market appetite for a new and unexplored means of financing.

5.3.5 Are preference shares issued to enhance debt capacity?

A further motive behind PSI B's public offering of preference shares was to build up its borrowing capacity, thereby establishing a strong foundation for the company's next phase of debt financing, as argued by Fischer & Wilt (1968). This was only possible, however, because the company's preference shares were classified as equity in its financial statements.

5.3.6 Are preference shares used to achieve desired financial reporting outcomes?

The financial statement classification of preference shares is of considerable importance due to the ensuing implications on the tax deductibility of preference shares, their eligibility as a complex instrument under MiFID requirements, and as a CET1 instrument for capital adequacy purposes. Nevertheless, the findings reveal that the financial reporting implications of preference share issues have little influence on the decision to issue preference shares, possibly due to a poor level of familiarity with IAS 32 and the aforementioned implications.

However, in agreement with Chatfield et al. (2020) and Levi & Segal (2015), high gearing levels may encourage the issue of preference shares, as these can be structured to improve MLCs' debt-to-equity ratios (Shakespeare, 2020).

5.3.7 The use of preference shares in times of financial distress

Would preference shares be attractive in times of financial distress?

The discretionary nature of a preference dividend payment and the flexibility that this provides to the company, particularly in times of financial distress, are valued features of preference shares among MLCs, in line with Chatfield et al. (2020).

However, ordinary shares also enable a financially troubled company to omit the dividend. Additionally, as emphasized by Santow (1962), if preference shares are cumulative, the dividend can only be suspended temporarily, offering less flexibility than an ordinary share issue.

Moreover, when considering the nature of local investors and their heavy reliance on dividend income, the viability of issuing preference shares is questionable, even in times of financial distress. In addition, suspending dividend payments may have a detrimental impact on the reputation and share price of the company (Chatfield et al., 2020; Suchard & Singh, 2006).

In view of this, most interviewees contended that a financially distressed company would not be able to issue any kind of financial instrument, including preference shares. Nonetheless, as other interviewees argued, companies with low profitability or experiencing cash shortages, aiming to regain their financial strength, may be more inclined to weigh all available financing options and thus issue preference shares.

Are preference shares issued by financially distressed companies?

While the majority of the interviewed MLCs repudiated the financial distress theory, the results from the financial distress analysis undertaken in this study provide some empirical evidence in favor of the financial distress hypothesis and its applicability to the Maltese market. The quantitative findings portray the two PSIs as showing some early signs of financial distress, at least in the financial period exactly prior to the preference share issues.

Indeed, PSI A's steady decline in its profitability and the general deterioration of its Z-score as the year of the preference share issue approached may suggest that the company was facing some financial difficulties, although at no point did the score fall below the 1.81 cut-off point of the distress zone. PSI A's preference share issues had a positive effect on the company's degree of leverage, without which its debt-to-equity ratio would have been comparatively higher than previous years.

In turn, consistent with earlier studies, the statistical findings of PSI B reveal that the issuing company had a dramatically poorer financial condition than the four non-issuing listed companies, in terms of profitability, gearing, and solvency, in each of the two years before the 2021 preference share issue, and thus, by inference, a higher risk of financial distress.

5.4 The Main Barriers to Preference Share Issues by MLCs

5.4.1 Limitations of the local market

The findings indicate that the characteristics of the local market and the nature and demographic of the local investor base are the principal impediments to the issue of preference shares by MLCs.

The lack of appetite for preference shares locally

MLC's greatest concern is the lack of appetite for preference shares, given that Maltese investors are bond-fixated. Acting on the advice of their advisors and stockbrokers, MLCs persist in issuing bonds, knowing that they can easily and inexpensively obtain the necessary funding by doing so. Contrarily, a preference share issue is perceived as being a great challenge in the local context. Consequently, an unsuccessful preference share issue would have a detrimental impact on the issuing company's market capitalization as well as its reputation, potentially compromising its commercial ties with banks and other financiers.

Unfavorable market conditions

Contrary to the findings of Bonnevier & Børke (2014), the recent period of low interest rates and rising market prices further discouraged MLCs from issuing preference shares, finding bonds, once again, to be a superior and more attractive financing instrument due to the popularity of bonds among local investors and MLCs.

The current state of the Maltese market

Another market-related obstacle to the issuance of preference shares is the limited size, maturity, and liquidity of the local capital market. The Maltese equity market is largely underdeveloped, as demonstrated by the low number of common equity and preference share public issues, a reflection of our small island state. The liquidity risk attached to preference shares may further impair preference shareholders' ability to sell their shareholding, restricting both the demand and the supply of such an instrument in the market.

Characteristics of local investors

Local investors, mainly individual retail investors and pensioners, are risk-averse, seek a stable flow of income, and hence have an undeniable preference for bonds. Despite this, as contended by Brabenec et al. (2020), the issue of preference shares with a fixed and cumulative dividend may indeed be favored by local investors, although this remains to be seen in present times since PSI A's successful preference share issues date back to 1995.

5.4.2 Are preference shares attractive from an investor perspective?

In line with Brabenec et al. (2020), MLCs consider the investor perspective to be an important determinant of the success of a preference share issue. Interviewees stated that the features of preference shares can act as a double-edged sword, in that issuing preference shares that are attractive to the issuing company may mean having to attach features that are in turn unappealing to investors. However, further investigation into the perception of local investors is required, which is hence an area of further research.

Furthermore, the findings establish that unless preference shares provide an exceedingly high payout to the holder of such a security, individuals will have no desire to invest in such an instrument. This is possibly why PSI B's preference shares, offering neither a guaranteed fixed return nor any voting rights, were not fully subscribed.

5.4.3 Is there a knowledge gap on preference shares?

An apparent lack of knowledge of preference shares exists among local investors, most of whom are past retirement age and have limited or no financing background. This, in turn, places a heavy burden on issuers and financial intermediaries to educate investors on the instrument.

Even more concerning is the finding that even stockbrokers and financial managers of MLCs, who supposedly possess a strong level of financial acumen, are not wholly familiar with preference shares. If this is truly the case, then how are investors expected to rely on their advice and be willing to invest in preference shares? Therefore, enhanced awareness and education on preference shares are imperative for MLCs to be able to explore new financing options, broaden the company's investor base, and contribute to the development of the local capital market.

5.4.4 Are preference shares a complex instrument?

One of the major barriers faced by MLCs is the complexity of preference shares. In accordance with the literature, MLCs believed that due to the overwhelming number of features preference shares can be endowed with, a preference share issue would be "an added complication" (Laurent, 2002), which would prevent the company from maintaining a "simple" capital structure.

Another area of concern for MLCs is the potential classification of preference shares as a complex instrument under MiFID II, which would burden both financial intermediaries and the investing public with the cost and tediousness of conducting or undergoing an appropriateness test (Rizzo, 2021). Thus, since such a classification would mean acquiring a smaller pool of investors and hence less funds, MLCs are further discouraged from publicly issuing preference shares. Having said that, ultimately, the complexity of preference shares is determined by the issuers themselves, depending on the terms that they assign to the instrument.

5.4.5 Are preference shares a tax-disadvantaged instrument?

Foreign literature strongly suggests that the lack of tax deductibility of preference shares is a key drawback to the issuance of such an instrument. This is only applicable in so far as the preference share is accounted for as equity in the financial statements.

Due to the significant impact of the tax shield on the cost of capital, as contended by Chatfield et al. (2020) and Elsaid (1969) debt is still likely to be more attractive than preference shares to MLCs from a taxation perspective. Nevertheless, in agreement with Laurent (2002) and Ravid et al. (2007), there may be other non-tax-related motives for issuing preference shares, and the tax position of certain MLCs may render the tax deductibility of preference shares irrelevant.

5.4.6 Do preference shares give rise to conflicts of interest?

The findings show that the introduction of preference shares within a company's capital structure is not generally viewed as being the source of any discord between preference shareholders and ordinary shareholders, the main reason being that management must always act in the best interest of the issuing company as a whole.

However, echoing Cai (2016) and Korsmo (2013), interviewees claimed that ordinary shareholders may feel second in line to preference shareholders with respect to both dividend payments and asset distribution. Furthermore, preference share issues that either grant equal voting rights or a convertibility option to their holders are unlikely to be well received by ordinary shareholders. Yet, as evidenced by the two local preference share issues, if the terms and features allocated to the issue are reasonable and comprehensible to all stakeholders, such conflicts are eliminated or minimized.

5.4.7 Does a preference share issue send negative market signals?

According to the literature, the announcement of a preference share issue is not typically perceived to be good news. The divergent market reactions to the two local preference share issues call this into question.

The immediate take-up of PSI A's preference shares issues in 1995 was principally thanks to the high market standing the company held at the time, confirming Kallberg et al. (2013)'s conviction that the negative announcement effect of a preference shares issue declines as the company's credit rating increases. Conversely, in the case of PSI B, the supplement to its prospectus, coupled with the complexity, volatility, and growth of the company's business model, may have sent negative market signals, resulting in a low take-up of its 2021 preference share issue.

Interviewees further contended that the degree of market acceptance of preference share issues depends on their features, the reputation and financial performance of the issuing company, as well as the extent of marketing undertaken by stockbrokers.

5.4.8 Are preference shares attractive to banks for capital adequacy purposes?

In direct contradiction to the arguments of Callahan et al. (2001) and Howe & Lee (2006), current regulatory capital requirements seem to provide minimal inducement for the public issuance of preference shares by local listed banks, since contrary to ordinary shares, these do not invariably qualify as CET1, but their eligibility is contingent on their corresponding features.

5.5 The Future Use of Preference Shares

5.5.1 Are preference shares secured a future place in the capital structure of MLCs?

Intriguingly, while PSI B claimed to be disposed to re-issuing preference shares in the future, PSI A showed no such desire.

The findings reveal that more than half of the non-issuing MLCs did not dismiss the possibility of using this unconventional financial instrument going forward, expressing their hope of there being further developments in the local market, namely added market maturity, improved investor knowledge, and increased diversification of companies' capital structure and investment portfolios.

The CFO of PSI A interviewed stockbrokers, MSErep, and the FA and conjectured that preference shares are slowly dying out, corroborating the past views of various writers. Indeed, the fact remains that the prospect of preference shares being "assured of a continuing place in corporate capital structure" (Elsaid, 1969) is still far from reality in the local context, largely because "the value that could be unlocked by companies" through preference share issues (Rizzo, 2021) is still rather underappreciated by MLCs.

5.5.2 What is the solution to increase the use of preference shares?

As proposed by interviewees, the key to reversing this declining trend in preference share issues in the local market environment is increased education, the onus of which falls on every issuer, financial intermediary, and regulator.

MLCs must be consistently more vocal about their operations and financial performance through regular company announcements and disclosures to keep the market informed, particularly when it comes to preference share issues. Moreover, issuers, with the help of stockbrokers, should engage in more rigorous marketing campaigns and roadshow presentations prior to the issue.

In order to reduce the prevalent knowledge barrier on preference shares in the local context, the MFSA and

MSE can provide specific courses and/or other training programs on preference shares. This may also help investment firms gain a better grasp of this hybrid instrument to adequately present its attractions and weaknesses to both MLCs considering using such an instrument and investors.

Apart from fostering a greater level of understanding and awareness of preference shares, it is also high time for the establishment of market-makers for equity and corporate bonds in Malta. This would increase the liquidity and diversity of the Maltese stock market and widen the range of investment options available, thus attracting foreign investors and possibly stimulating the demand for preference shares.

6. Conclusions

This study concludes that debt and common equity remain the preferred means of financing among MLCs, as evidenced by the lack of preference share issues in the local capital market and the scarce consideration for using such a financing instrument. Despite their flexibility, preference shares are not sufficiently attractive to MLCs and are only resorted to when additional debt and/or ordinary share issues are not possible or feasible.

This study also concludes that the rationale for issuing preference shares may vary from one MLC to another. Preference share issues may arise from the need to support corporate growth, meet capital needs, avoid dilution of control, exploit market conditions, maintain a balanced capital structure, and enhance debt capacity. Financial distress may have also prompted the two local PSIs to issue preference shares. The greatest barriers to preference share issues by MLCs are those related to the nature and characteristics of the local market and investor, the perceived complexity of preference shares, and their lack of attractiveness to investors. This study also recognized the existence of a prevailing knowledge gap on preference shares.

The potential place of preference shares in the corporate capital structure of MLCs largely depends on the increased development of the local capital market and improved acceptance and understanding of preference shares. Without such changes, preference shares are unlikely to feature more in the local corporate scene. Therefore, greater education may be the best first step to increasing preference share issuance, whereby issuers, stockbrokers, and regulators all have an important role to play.

In an increasingly complex business environment, it is paramount for companies to choose the appropriate mix of financing to ensure their success and competitiveness in local and global markets. Unfortunately, MLCs are not yet fully conscious and appreciative of the value they could unlock by embracing more innovative sources of finance, such as preference shares, and their potential contribution to the much-needed development of the local capital market.

The government and policymakers should conduct market research to understand investor preferences and appetites for such shares in Malta's capital market. This can help gauge demand and barriers in order to inform decision-making regarding the issuance of preference shares.

They should assess the current capital structure and financing needs to determine whether preference shares align with their strategic objectives. Preference shares may be suitable for companies seeking additional capital without diluting existing ownership or taking on more debt.

An evaluation of the tax implications of issuing preference shares compared to other financing options, such as debt. While preference dividends are not tax-deductible, companies should take into account the overall cost of capital and the impact on their financial statements.

Moreover, they should clearly communicate the rights and preferences attached to preference shares, including dividend rates, voting rights, and redemption provisions, to ensure transparency and investor confidence.

Conflicts of interest between preference shareholders and common shareholders should be proactively addressed. This may involve implementing corporate governance mechanisms to balance the interests of different shareholder classes and ensure fairness in decision-making processes. On the other hand, companies should assess prevailing market conditions, including interest rates, investor sentiment, and competitor activity, before timing their preference share issuance. Issuing preference shares during favorable market conditions can enhance investor demand and optimize pricing outcomes.

After issuing preference shares, companies should regularly monitor the performance of these securities and their impact on the company's overall capital structure and financial position. This may involve tracking dividend payments, investor feedback, and market reactions to ensure alignment with strategic objectives.

Although Maltese history has shown that preference shares are not a sought-after instrument by listed companies, as is commonly stated in corporate finance, ‘the past is not a guarantee of the future’. Moreover, as to the future use of preference shares by MLCs, as remarked by four interviewees, “never say never.”.

Author Contributions

All co-authors contributed equally to all parts of the paper. All authors have read and agreed to the published version of the manuscript.

Informed Consent Statement

Informed consent was obtained from all subjects involved in the study.

Data Availability

The data used to support the research findings are available from the corresponding author upon request.

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Conflicts of Interest

The authors declare no conflict of interest.

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Appendix

A1. Interview Schedule - Preference Share Issuers

Introduction: The nature of preference shares and their features

1) In your view, do preference shares more closely resemble debt or equity? Why?
2) What are your views on the classification and accounting treatment of preference shares as per IAS 32 - Financial Instruments: Presentation?
3) In your opinion, what are the main features attributable to preference shares, and which of these features, if any, render preference shares attractive or unattractive as a financing instrument?
4) How do the dividend yield and financing cost of preference shares compare to those of bonds and ordinary shares?
5) What advantages and/or disadvantages do you perceive preference shares to have when compared to bonds and ordinary shares?

Section B: The determinants and barriers to preference share issues

6) Was your decision to issue preference shares motivated by any of the following reasons:
To support corporate growth
To retain ownership and control
To take advantage of the prevailing market conditions and/or market rates of interest
To enhance debt capacity or improve borrowing base
To maintain a balanced capital structure
Other?
7) How important is the dividend omission feature of preference shares in deciding whether to issue preference shares or not? Does this change during times of financial distress and if so, how?
8) Does financial distress alter the decision to issue preference shares and if so, in what manner?
9) To what extent did you consider the financial reporting implications of your preference share issue?
10) Do you perceive there to be any risk in issuing and investing in preference shares? Did this have any impact on your decision to issue preference shares?
11) In your view, does a preference share issue create any conflicts of interest between preference shareholders, ordinary shareholders, debtholders and managers of your company? Why or why not?
12) How did investors and other stakeholders react to your announcement of a preference share issue? In your opinion, why did they react in this manner?
13) Do you agree with the statement that preference shares are essentially 'debt with a tax disadvantage'?
14) To what extent did you take into consideration the tax implications of preference share issues from a corporate and investor level, prior to issuing preference shares?
15) To what extent do you think that the individual investor is familiar with and understands preference shares and their associated privileges? What impact, if any, does this have on the decision to issue preference shares?

Section C: The future use of preference shares

16) Would you consider re-issuing preference shares in the future? Why or why not?

A2. Interview Schedule - Other Participants

Introduction: The nature of preference shares and their features

1) In your view, do preference shares more closely resemble debt or equity? Why?

2) What are your views on the classification and accounting treatment of preference shares as per IAS 32 - Financial Instruments: Presentation?

3) In your opinion, what are the main features attributable to preference shares, and which of these features, if any, render preference shares attractive or unattractive as a financing instrument?

4) How do the dividend yield and financing cost of preference shares compare to those of bonds and ordinary shares?

5) What advantages and/or disadvantages do you perceive preference shares to have when compared to bonds and ordinary shares?

Section B: The determinants and barriers to preference share issues

6) In your opinion, to what extent, if any, is Maltese listed companies' decision to issue preference shares motivated by the following reasons:

To support corporate growth

To retain ownership and control

To take advantage of the prevailing market conditions and/or market rates of interest

To enhance debt capacity or improve borrowing base

To maintain a balanced capital structure

Other?

7) In your opinion, what are the main reasons why the majority of Maltese listed companies do not issue preference shares?

8) How important is the dividend omission feature of preference shares in deciding whether to issue preference shares or not? Does this change during times of financial distress and if so, how?

9) Do you think that being in financial distress would alter a listed company's decision on issuing preference shares and if so, in what manner?

10) To what extent do you think financial reporting implications of preference share issues are considered in a listed company's choice of financing?

11) Do you perceive there to be any risk in issuing and investing in preference shares and what impact, if any, would this have on the decision to issue preference shares?

12) In your view, would a preference share issue create any conflicts of interest between preference shareholders, ordinary shareholders, debtholders and managers of your company? Why or why not?

13) To what extent do you think that the individual investor is familiar with and understands preference shares and their associated privileges? What impact, if any, does this have on the demand for preference shares?

14) In your view, how are investors and other stakeholders likely to react to the announcement of a preference share issue? Why?

15) Do you agree with the statement that preference shares are essentially 'debt with a tax disadvantage'?

16) To what extent do you think the tax implications of preference share issues, from a corporate and investor level, are taken into consideration in the financing decision?

17) To what extent do regulatory requirements on capital adequacy influence listed banks' decision on whether or not to issue preference shares?

Section C: The future use of preference shares

18) Do you think that preference shares will be used more by Maltese Listed Companies in the future? Why or why not?