



Company/Commercial - Spain

Senate Proposes to Reform Rules Governing Family Businesses

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[Summary](#) [Further Amendments Suggested](#)

In order to promote the advancement and development of family companies (ie, companies in which management and ownership are held by members of the same family), a special Senate committee has presented a series of proposals which, if adopted, will constitute a major reform of company matters. Family-run enterprises currently account for 85% of Spanish businesses.

Summary

The committee's proposals make the following recommendations:

- Family-run companies should be required to draw up an official 'family protocol', defined as an agreement which delineates the development framework and the procedural rules and relations between the family company itself and its ownership;
- The Mercantile Registry will record those aspects of the family protocol that affect relations with third parties;
- Family companies should add the letter 'F' to their trading names, indicating the type of company or its corresponding abbreviation (eg, *sociedad de responsabilidad limitada familiar*, or SLF);
- A specific dispute resolution system (arbitration or mediation) should be introduced to resolve conflicts that arise concerning the property of the family business, as well as between the titleholder family/families and the company itself;
- Investors should be allowed to finance the family company through the issue of non-voting shares;
- Family companies should be allowed to adopt other measures of alternative financing, such as the issue of bonds; and
- Existing legislation should be reformed regarding the social security affiliations of administrators of family companies.

Some of these amendments will be included in the reform of the limited liability company framework (for further information please see the [Overview \(March 2003\)](#)).

The limited liability company structure is the preferred form of small and medium-sized enterprise (which include the majority of family

businesses). However, there are shortcomings which the New Business Bill seeks to resolve. If approved by Parliament, the bill will add a new chapter and other provisions to the Limited Liability Companies Act (2/1995).

Further Amendments Suggested

One political party has proposed the inclusion of the right to issue non-voting shares, whereby a foreign investor may invest in the company with full economic rights (eg, right to receive dividends) but may not be involved in the running of the business. This would allow the family to access alternative means of financing without losing management control.

Another amendment proposes to allow companies to hold their own shares temporarily (for a maximum of three years) if, for example, one of the partners leaves the company. This would ensure the survival of the company and prevent it from having to reduce its capital or sell shares to individuals outside the family.

A final amendment to the New Business Bill affects inheritance law, enabling the titleholder of the business to bequeath the business in his or her will to one of his or her heirs (in contrast, Spanish civil law provides for the mandatory division of assets between the heirs). The inheritor would have to pay the corresponding part of the inheritance in cash to the other heirs within five years, but not from the proceeds of the legacy. In this way the continuity of the business would be guaranteed and the sale of the business in order to divide the inheritance between the heirs avoided.

These amendments are currently under discussion in the Senate and will also be reviewed by Congress prior to the final enactment of the new law.

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