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Mandatory Convertible Bond as an Instrument to Pursue Dominant Position Among Shareholders

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Abstract

This study examines the strategic and legal implications of Mandatory Convertible Bonds (MCBs) as hybrid financial instruments that combine the characteristics of debt and equity. MCBs are distinct in that they mandatorily convert into equity at maturity, offering issuers both a mechanism to reduce leverage and a strategic tool to influence ownership structures. In the context of corporate finance, these instruments serve as a bridge between fixed-income security and potential equity participation, providing issuers with lower financing costs while granting investors the opportunity for capital appreciation. Previous studies, such as those by Chemmanur (2006) and Pajak (2008) have predominantly explored the financial efficiency, valuation models, and agency problems related to MCBs. However, limited attention has been given to their legal implications, particularly concerning their potential use in pursuing dominant control among shareholders. This paper adopts a normative juridical research method utilizing statute, conceptual, and comparative approaches to examine how MCBs are regulated and applied in Indonesia, the European Union, and the United States. The findings indicate that mandatory conversion mechanisms allow issuers to strategically dilute existing shareholders and reallocate voting power to selected investors, thereby strengthening corporate control. Such practices demonstrate the dual nature of MCBs—not only as financial innovation but also as instruments with potential implications for corporate governance and fairness among shareholders. The study concludes that to ensure equitable stakeholder protection, the issuance of MCBs requires clear regulatory safeguards and adherence to evolving international standards.

INTRODUCTION

In corporate law and international financial practice, hybrid instruments have increasingly gained attention for their dual function in balancing debt and equity positions. Among these instruments, Mandatory Convertible Bonds (MCBs) have emerged as a significant financing tool due to their capacity to combine debt and equity characteristics within a single structure. MCBs mandatorily convert into equity at maturity, allowing issuers to transform liabilities into capital while simultaneously reshaping ownership structures. This feature provides companies, especially those facing high leverage or restructuring pressures, with the flexibility to stabilize their capital composition without immediate dilution or refinancing risks.

The use of MCBs also reflects broader developments in corporate finance where instruments are designed not only to optimize capital structures but also to influence governance outcomes. As corporate law increasingly integrates financial innovation, MCBs stand at the intersection between economic utility and legal accountability. Their mandatory conversion component can have profound implications for the distribution of ownership and voting power, particularly in jurisdictions where legal safeguards on shareholder equality and pre-emptive rights are less explicit. The ability to issue MCBs, allocate conversion rights, and determine conversion ratios allows issuers to shape the post-conversion shareholder composition, a process that can either support restructuring objectives or, conversely, be exploited to pursue dominance over other shareholders.

From a legal perspective, MCBs play an important role in the governance of corporate capital and shareholder dynamics. In Indonesia, the issuance of MCBs falls under the scope of Law No. 40 of 2007 on Limited Liability Companies (the "Company Law"), particularly Article 41(1), which requires any capital increase to be approved by the General Meeting of Shareholders (GMS), and Article 43(3)(b), which recognizes the exemption of pre-emptive rights for the issuance of shares intended for holders of convertible bonds. This legal basis demonstrates that Indonesia already accommodates the use of MCBs as legitimate instruments of capital enhancement, aligning national regulation with global practices. However, the absence of specific procedural standards regarding conversion-linked voting rights creates potential for misinterpretation and exploitation in the pursuit of dominant control among shareholders. This ambiguity underscores the importance of integrating clear legal frameworks to prevent the abuse of MCBs as tools for unfair concentration of corporate control.

From a theoretical standpoint, the agency theory and the shareholder equality principle offer useful frameworks for understanding the risks posed by MCBs. Agency theory explains that managers or controlling shareholders may act opportunistically, issuing MCBs to consolidate their own control while diluting minority shareholders. Meanwhile, the shareholder equality principle underpins the notion that every share should carry equal voting rights unless expressly limited by law or company articles. In practice, however, mandatory conversion can subtly shift this equilibrium by transferring voting rights to specific investors at a chosen time, effectively reshaping corporate power dynamics.

Several previous studies have explored the economic and financial aspects of convertible instruments. Chemmanur (2006) analyzed the motivation behind issuing MCBs as a capital optimization strategy while Pajak (2008) emphasized their role as hybrid financing tools. More recently, Prokop (2024) focused on market reactions to convertible bond announcements in European jurisdictions. Yet, these studies largely overlook the legal dimension and governance implications of MCBs in altering shareholder power structures. This research therefore seeks to bridge that gap by examining how MCBs can be strategically used to pursue or consolidate dominant positions among shareholders through mechanisms of mandatory conversion and redistribution of voting rights.[1]

Research Objectives

1. To examine and analyze the legal rationale and corporate governance principles that require approval from existing shareholders in the issuance of Mandatory Convertible Bonds (MCBs), particularly considering their potential impact on equity dilution and shareholder rights.
2. To examine and analyze how Mandatory Convertible Bonds (MCBs) can be strategically used by issuers or investors to pursue and consolidate a dominant position among shareholders through mechanisms of mandatory conversion and voting power redistribution.

This study employs a normative juridical research method, which focuses on the examination of legal norms, doctrines, and principles that regulate the issuance and application of Mandatory Convertible Bonds (MCBs). The research aims to analyze the relationship between financial innovation and corporate governance within existing legal frameworks. Three approaches are applied in this study: the statute approach, which examines relevant provisions of law, including Law No. 40 of 2007 on Limited Liability Companies; the conceptual approach, which explores legal doctrines and theoretical underpinnings related to shareholder rights and corporate control; and the comparative approach, which contrasts the

[1] Jörg Prokop, Matthias Walting, and Franziska Kahlen, "Are More Analysts Better? The Case of Convertible Bond Announcement Effects," International Review of Financial Analysis 96 (2024): 103696.

regulation and practice of MCBs in Indonesia, the European Union, and the United States. Legal materials used in this research consist of primary legal materials, such as statutory regulations and judicial interpretations; secondary materials, including academic articles, books, and reports; and tertiary materials, such as legal dictionaries and commentaries. All materials are analyzed qualitatively to identify patterns, similarities, and differences in legal treatment and to formulate conclusions concerning the legal implications of MCBs as instruments for pursuing dominant positions among shareholders.

DISCUSSION

Mandatory Convertible Bonds

Mandatory convertible bonds (MCBs) are hybrid securities that blend characteristics of both debt and equity. Unlike standard convertible bonds, which provide investors with the option to convert their bonds into equity at maturity, MCBs are structured to automatically convert into equity on or before a specified maturity date, regardless of how the stock performs. This mandatory conversion feature sets mandatory convertible bonds apart from regular convertibles and gives them an equity-like nature.[2]

Mandatory Convertible Bonds or MCBs typically convert into a predetermined number of shares, but the conversion ratio varies with the stock price. If the stock price is at or below the initial issue price at maturity, investors receive a set number of shares, often equating to one share per bond, similar to direct equity ownership. However, if the stock price exceeds the issue price, investors receive fewer shares, capped at a conversion limit or premium (for example, 25% above the initial stock price). Beyond this premium, the number of shares issued per bond remains fixed, which limits the upside potential for investors compared to owning the stock directly.[3]

To compensate for this limited upside and lack of conversion flexibility, MCBs generally offer higher coupon payments than regular convertibles, often above the dividend yield of the issuing company. These coupons provide a regular income stream until the bond converts to equity. Additionally, MCBs lack downside protection, meaning that if the stock

[2] J. Eve, "What Is a Mandatory Convertible Bond?" 30 Years: Equity Capital Markets, accessed November 13, 2024, https://financeunlocked.com/videos/what-is-a-mandatory-convertible.
[3] J. Chen, "Convertible Bond: Definition, Example, and Benefits," Investopedia, 2024, accessed November 13, 2024,
https://www.investopedia.com/terms/c/convertiblebond.asp#:~:text=Mandatory%20convertible%20bonds%20are%20required,fixed%20income%20investment%20until%20maturity.

price underperforms, investors could face a capital loss due to the lower share count they receive upon conversion.

MCBs are advantageous for companies as they enable capital raising with the assurance of a future equity conversion, thereby reducing debt without needing refinancing. As stated by Prokop, MCBs particularly relevant for aiming to raise capital while at the same time avoiding to harm existing shareholders' wealth.[4] Companies with high leverage or in need of restructuring often issue MCBs, as they provide an initial cash influx and, upon conversion, can enhance the balance sheet by lowering overall debt levels. To summarize, MCBs offer investors a blend of fixed income and equity exposure, with mandatory conversion at maturity, giving investors a probability of higher yields in exchange.[5]

Difference Between Convertible Bonds And Mandatory Convertible Bonds

The key difference between standard convertible bonds and mandatory convertible bonds (MCBs) lies in the nature and timing of conversion into equity. Standard convertible bonds give bondholders the option to convert their bonds into equity at a predetermined price, offering them flexibility. If the market price of the company's stock does not exceed the conversion price, bondholders can choose to retain their bonds and continue receiving fixed coupon payments. On the other hand, MCBs require conversion into equity upon maturity, eliminating the bondholder's discretion in this regard. This makes MCBs more equity-like in nature. Additionally, MCBs are often treated as equity in the issuer’s balance sheet, which can help reduce leverage and improve financial ratios, a feature particularly beneficial for companies looking to maintain or enhance their credit ratings. However, MCBs tend to come with higher risks for investors as they do not have the fallback option of holding them as debt, especially if the company's stock performs poorly. This distinction underscores the strategic uses of these instruments in corporate finance, with convertible bonds providing flexibility and MCBs being a tool for addressing leverage and balance sheet concerns.

[4] Jörg Prokop, Matthias Walting, and Franziska Kahlen, “Are More Analysts Better? The Case of Convertible Bond Announcement Effects,” International Review of Financial Analysis 96 (2024): 103696.

[5] J. Chen, “Convertible Bond: Definition, Example, and Benefits,” Investopedia, 2024, accessed November 13, 2024,https://www.investopedia.com/terms/c/convertiblebond.asp#:~:text=Mandatory%20convertible%20bonds%20are%20required,fixed%20income%20investment%20until%20maturity.

The Importance Of Mandatory Convertible Bonds

Mandatory convertible bonds (MCBs) are crucial financial instruments, particularly for companies navigating specific market challenges like financial distress and asymmetric information. MCBs mandatorily convert into equity at maturity, offering at least three distinct advantages: (1) they avoid financial distress costs, (2) cap the upside potential for investors, and (3) typically provide a higher dividend yield than the underlying equity. These features make them an appealing option for companies facing high probability of financial distress but minimal asymmetric information. By mandating conversion to equity, MCBs reduce the likelihood of the company defaulting on fixed obligations, ensuring operational stability during periods of financial strain.

The capped upside limits investor's potential gains, which reduces undervaluation due to informational common issues when equity alone is issued. This structure ensures companies retain more value for shareholders while still raising necessary capital. Additionally, higher dividends attract investors, compensating them for the limited capital appreciation. Companies benefit from a reduced risk of financial distress compared to straight debt or ordinary convertible bonds.[6]

Empirical evidence supports the strategic use of MCBs, showing their effectiveness in scenarios where financial distress costs outweigh the benefits of traditional securities. They are particularly suited for large, leveraged companies or those in economic downturns, offering a hybrid solution that balances debt and equity advantages while addressing market imperfections. Their utility underscores their importance in capital structure decisions, facilitating sustainable financing and enhanced market confidence.

Convertible bonds offer a range of advantages for both issuers and investors. For issuers, convertible bonds provide access to capital at a lower initial cost compared to straight debt or equity. Since these bonds offer bondholders the option to convert into equity, they typically come with lower interest rates than non-convertible debt, reducing immediate financing costs. Additionally, convertible bonds mitigate dilution of existing shareholders' ownership and voting rights until conversion, making them more appealing than issuing equity outright. They also offer greater flexibility for corporate financing strategies by allowing companies to balance between debt and equity financing depending on their needs . For

[6] Thomas J. Chemmanur, Debarshi K. Nandy, and An Yan, "Why Issue Mandatory Convertibles? Theory and Empirical Evidence," European Finance Association (EFA) Working Paper (March 2006).

investors, convertible bonds combine the steady income of fixed coupon payments with the potential upside of converting into equity if the company's stock price appreciates. This dual feature offers a balanced risk-reward profile, protecting investors during periods of low equity performance while allowing them to benefit from stock market gains.

The Advantages Of Using Mandatory Convertible Bonds

Convertible bonds offer a range of advantages for both issuers and investors. For issuers, convertible bonds provide access to capital at a lower initial cost compared to straight debt or equity. Since these bonds offer bondholders the option to convert into equity, they typically come with lower interest rates than non-convertible debt, reducing immediate financing costs. Additionally, convertible bonds mitigate dilution of existing shareholders' ownership and voting rights until conversion, making them more appealing than issuing equity outright. They also offer greater flexibility for corporate financing strategies by allowing companies to balance between debt and equity financing depending on their needs.[7] For investors, convertible bonds combine the steady income of fixed coupon payments with the potential upside of converting into equity if the company's stock price appreciates. This dual feature offers a balanced risk-reward profile, protecting investors during periods of low equity performance while allowing them to benefit from stock market gains.[8]

Convertible Bonds: Key Considerations And Differences In Practice Across Europe

Convertible Bonds: Key Considerations and Differences in Practice Across Europe is research conducted and published by Clifford Chance. This research focuses and explores the intricacies of convertible bonds in various European jurisdictions. Convertible bonds represent a hybrid financial instrument that combines characteristics of both debt and equity, providing companies with an alternative funding source.[9] Typically, these bonds allow investors to

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[7] S. Salleh, "Issue Frequency and Convertible Bonds in Malaysia" (Master's thesis, Universiti Utara Malaysia, 2017).
[8] William W. Bratton, "The Economics and Jurisprudence of Convertible Bonds," Wisconsin Law Review (1984): 667.
[9] C. Chance, "Convertible Bonds: Key Considerations and Differences in Practice Across Europe," European Capital Markets Monthly Briefing Series (June 2023), accessed November 13, 2024, https://financialmarketstoolkit.cliffordchance.com/content/micro-facm/en/financial-markets-resources/resources-by-type/european-capital-markets-briefing-series/convertible-bonds--key-considerations-and-differences-in practic/_jcr_content/parsys/download/file.res/convertible-bonds-key-considerations-and-differences-in-practice-across-europe.pdf.

convert the bonds into shares of the issuing company at a predetermined conversion price, allowing them to benefit from the company's growth while enjoying protections associated with debt instruments. This dual nature enables companies to secure capital more easily, sometimes at more favorable rates than those associated with traditional equity offerings.

The research about Convertible Bonds highlights significant differences across Europe regarding legal frameworks, shareholder approval requirements, and tax implications. For example, in Germany, convertible bond transactions are often conducted under German law, with strict limitations on the offering size to maintain fairness to existing shareholders. In France, issuance must comply with pre-emptive rights regulations, and French law mandates specific adjustment provisions for equity-linked instruments. Spain and Belgium employ a mix of English and local laws, with unique corporate formalities like requiring public deeds and registration in Spain or flexible issuance conditions in Belgium.[10]

Furthermore, after a deeper dive about convertible bonds, Clifford also underscores the importance of early engagement with legal, tax, and financial experts to navigate the varied regulatory landscape effectively. Further, the paper discusses how recent regulatory adjustments, such as relaxed pre-emption guidelines in the UK and issuance flexibility in Spain, reflect a broader trend toward facilitating convertible bond issuance within public markets. Additionally, it provides insights into U.S. securities law considerations, particularly regarding compliance with regulations for issuances that might reach U.S. investors. Ultimately, the document presents a comprehensive overview of country-specific practices for equity-linked issuances, advising stakeholders to account for local variations to achieve successful cross-border convertible bond transactions

[10] Ibid.

Table 1. Key Legal Provisions Across Jurisdiction

Jurisdiction	Key Legal Requirement
Germany	Shareholder approval for subscription right exclusions, conversion price set at a minimum of 80% of market value.
France	Preemptive rights regulations, explicit shareholder authorization n, adjustment clauses for buybacks.
Spain	Approval of issuances exceeding 20% of capital, independent expert reports for large transactions
Italy	Authority provided in bylaws may allow issuance without shareholder approval; typically requires capital increase approval.

United State Laws Regarding Mandatory Convertible Bonds

Mandatory convertible bonds (MCBs) for state member banks and bank holding companies are governed by the Federal Reserve's risk-based capital guidelines under 12 CFR parts 208 and 225. These instruments are classified as subordinated debt that converts to equity at maturity or upon specific triggering events, and they must meet specific criteria to qualify as Tier 2 capital. MCBs must be subordinated to the issuer's general creditors (and depositors, in the case of banks), unsecured, and explicitly state they are not deposits or federally insured. While there is no minimum maturity requirement due to their convertible nature, MCBs must have a maximum maturity of 12 years. They also cannot include acceleration clauses except in cases of bankruptcy (Chapters 7 or 11) or receivership, as other types of acceleration could destabilize the institution. The instruments must align with safe and sound banking practices, avoiding restrictive covenants or terms that would negatively impact a bank's flexibility in managing financial or liquidity concerns.

MCBs are not permitted to be credit-sensitive, meaning their terms must not tie interest rates to the issuer's financial condition in ways that could deplete resources during times of distress, thereby increasing default risk. The inclusion of MCBs in Tier 2 capital is limited to 50% of Tier 1 capital, and their value is discounted during the last five years before maturity to reflect their diminishing contribution to long-term capital. Redemption of MCBs prior to maturity requires Federal Reserve approval for state member banks, and bank holding companies are strongly advised to consult with the Federal Reserve. Additionally, if MCBs are backed by segregated funds or dedicated proceeds, those portions are excluded from Tier 2 capital. These regulations are designed to ensure MCBs enhance the issuer's capital adequacy while mitigating risks to the institution and its creditors.

Acknowledgement Mandatory Convertible Bonds In Indonesia

Indonesia regulates the legal framework governing limited liability companies (Perseroan Terbatas) under Law No. 40 of 2007 on Limited Liability Company (the "LLC Law"). This regulation explicitly recognizes the existence of Mandatory Convertible Bonds (MCBs) under provisions related to Capital and Shares, particularly within the subsection addressing Capital Increase. Under the LLC Law, any capital increase by a limited liability company must first obtain approval from the General Meeting of Shareholders (Rapat Umum Pemegang Saham or "GMS") pursuant to Article 41(1). Furthermore, Article 43 stipulates that all newly issued shares for capital augmentation must be offered to existing shareholders on a pro rata basis, proportionate to their current shareholding in the same class of shares. This pre-emptive right ensures existing shareholders retain priority in maintaining their ownership stake. However, the LLC Law provides an exception to this pre-emptive right in the context of MCBs. Article 43(3)(b) states that "the offering requirement under paragraph (1) shall not apply to the issuance of shares intended for holders of bonds or other securities convertible into shares." This regulation shows how Indonesia legally acknowledges MCBs as a valid capital-raising instrument. Consequently, businesses seeking to enhance capital may choose MCBs as a strategic alternative, even though it needs Rapat Umum Pemegang Saham approval as stated under Article 41(1). The inclusion of this exception within the LLC Law reflects Indonesia's alignment with global corporate finance practices, Indonesia not only accommodates their use but also considers their role in corporate strategies aimed at optimizing capital structures. This legal framework underscores Indonesia's deliberate effort to harmonize domestic corporate governance with international financial standards, enabling businesses to leverage MCBs as a mechanism for sustainable capital growth while maintaining regulatory compliance.

The Economics And Jurisprudence Of Convertible Bonds

Convertible Bonds have two properties, which merge features of both debt and equity into a single hybrid security. They are valued based on their sensitivity to market, interest rate, and credit risks, requiring models that incorporate the interplay between these factors.[11] Convertible bonds are structured to offer fixed income payments while granting bondholders the option to convert their bonds into equity at a certain time with predetermined price. This hybrid nature allows them to serve as a bridge between the interest of debt and interest of equity holders. This combined property also gives bondholder's interest rates of debt while at the same time offering a return of stock price. From a legal standpoint, Traditionally, bondholders are regarded as creditors, and their protection is typically confined to explicit contractual provisions. Courts have generally refrained from extending fiduciary protections to bondholders, drawing a sharp line between corporate law (which governs equity holders) and contract law (which applies to debt holders). However, convertible bonds challenge this dichotomy due to their mixed characteristics. Courts have occasionally invoked doctrines of good faith and equitable principles to address unfair treatment of convertible bondholders when issuers act in ways that devalue the conversion privilege. For instance, actions like excessive dividend distributions or taking on risky projects that benefit shareholders but harm bondholders' interests can lead to judicial scrutiny.

The economic utility of these convertible bonds lies in their flexibility. Issuers benefit from reduced initial costs compared to traditional bonds since these convertible bonds typically offer lower coupon rates than regular debt. This occurs because bondholders accept the prospect of equity conversion as part of their return in the future. For issuers, convertible bonds also mitigate immediate dilution of shareholder voting rights, which can make them a more attractive alternative to direct equity issuance. However, they come with risks. Poorly designed convertible bonds can create incentives for issuers to engage in opportunistic behavior, such as issuing shares at a disadvantageous time for bondholders or altering corporate structures in ways that undermine the value of the conversion option.[12]

Courts and policymakers have had to grapple with whether MCBs should be treated as equity or debt, as their classification influences regulatory compliance, creditor protections, and tax obligations. MCBs are particularly attractive during market turbulence, offering stability to investors while enabling companies to manage financing constraints effectively. Additionally, pricing these bonds involves addressing contract-specific features like conversion

[11] K. J. Pajak, "Mandatory Convertible Bonds as Special Hybrid Financing Instruments" (2008).
[12] William W. Bratton, "The Economics and Jurisprudence of Convertible Bonds," Wisconsin Law Review (1984): 667.

clauses, soft call periods, and path dependencies, emphasizing the need for models that balance theoretical accuracy with practical implementation. Collectively, these insights highlight the versatile nature of convertible bonds, their strategic role in corporate financing, and the importance of robust valuation techniques to capture their full potential in dynamic market conditions.[13]

The Approval Needs Of Existing Shareholders For Mandatory Convertible Bonds Issuance

Mandatory Convertible Bonds (MCBs) typically require approval from existing shareholders due to their dilutive nature, though the specific requirements vary across jurisdictions and corporate governance frameworks. For example In Germany, corporate law mandates shareholder approval for convertible bond issuances that exclude subscription rights, ensuring that the conversion price is not significantly discounted relative to market prices. Issuers often include provisions in corporate resolutions to comply with these requirements, such as setting conversion prices at a minimum of 80% of the average share price over the previous 10 trading days. Similarly, France requires explicit shareholder authorization for equity-linked instruments, with distinctions made between public offerings and private placements. Shareholder approval is essential for authorizing adjustments and structuring options for share buybacks, which are often included in MCBs terms. In Spain, shareholder approval is necessary for equity-linked issuances exceeding certain thresholds, such as when the convertible shares constitute more than 20% of the company's capital. Additionally, independent expert reports may be required for specific transactions. Italy, on the other hand, allows companies to issue MCBs without direct shareholder approval if their by laws explicitly provide such authority, though the practice remains less common. In most cases, shareholders are called to approve capital increases to support conversion rights post-issuance. These requirements exist to safeguard the interests of existing shareholders and maintain transparency, as MCBs dilute equity upon conversion. They ensure that the issuance process is conducted fairly and does not circumvent shareholder oversight.

In investment risk management of a project, its present value tends to increase due to the flexibility of the investor's investment capabilities. So, the shareholder's decision to issue

[13] R. Grimwood and S. Hodges, "The Valuation of Convertible Bonds: A Study of Alternative Pricing Models," Warwick Finance Research Institute Working Paper PP02-121 (2002).

mandatory convertible bonds (MCBs) is accompanied by a temporary dilemma, on one hand, in the absence or complexity of other financing alternatives, this is a better substitute for traditional bonds. However, on the other hand, increasing the success rate of the project leads to an increase in the market value of the shares, thus stimulating unwanted conversion. If the project succeeds in which the rate of return on the shares reaches the conversion level, there is an unwanted conversion from MCBs that influences the voting power of existing shareholders. Thus, the risks of the investment project and the risks of the investor are redistributed and optimized through flexibility through elementary hybridization of a simple and derivative instrument (bonds and stock options).[14]

Mandatory Convertible Bonds Is To Pursue Dominant Position Among Other Shareholders

Mandatory Convertible Bonds (MCBs) can be strategically structured to pursue or consolidate a dominant position among shareholders, primarily by leveraging their ability to issue new shares upon conversion and influence voting power. MCBs dilute the equity of existing shareholders when converted, allowing issuers to allocate shares to specific investors or groups, potentially enhancing their control and influence in corporate governance. For instance, companies may grant preferential access to MCBs to institutional investors or allied shareholders, ensuring these (future shareholders) acquire a larger share of equity and voting power. The mandatory conversion feature, tied to predefined strike prices and ratios, allows issuers to shape the equity base strategically, effectively consolidating power among targeted investors. Additionally, the shares obtained upon conversion typically carry voting rights, further amplifying the influence of new equity holders (before bond holders). MCBs can also be used to stabilize shareholder dynamics by discouraging speculative actions, as their payoff structure (linked to stock performance) provides gradual and controlled equity distribution.[15] Compared to traditional equity issuance, MCBs reduce the immediate impact on share prices and the perception of dilution, making them more acceptable to existing shareholders. This feature minimizes resistance while allowing the issuer to quietly shift the balance of power. Research indicates that MCBs are often used by companies with high leverage or financial

[14] Yan V. Pidvysotskyi, "Problems of Convertible Bonds Valuation in Implementation of International Business Projects," Actual Problems of International Relations 1, no. 144 (2020): 53–61.
[15] M. Rüdlinger, "Contingent Convertible Bonds: An Empirical Analysis of Drivers and Announcement Effect" (Dissertation, University of St. Gallen, 2015).

distress, as their equity-linked structure enables restructuring without immediate financial strain while ensuring equity-based payoffs to investors. Overall, MCBs serve as a sophisticated tool to achieve dominance by enabling issuers to reshape shareholder composition strategically and align voting power with corporate objectives.[16]

CONCLUSION

Mandatory Convertible Bonds (MCBs) as an instrument of corporate finance with dual characteristics as a debt-equity mechanism of capital. Most of the countries including Indonesia need shareholder approval for MCB issuances. MCBs as an additional capital and their strategic utility in reshaping corporate power dynamics. The requirement for shareholder approval in MCB issuances reflects jurisdictional efforts to mitigate dilution risks and uphold fiduciary duties. As in Germany, France, and Spain, legal frameworks mandate explicit shareholder authorization to safeguard pre-emptive rights, ensuring conversion terms do not disadvantage existing shareholders. Indonesia's Law No. 40 of 2007 exemplifies a hybrid approach: while exempting MCBs from Article 43(3)(b), it retains the necessity of General Meeting of Shareholders (GMS) approval for capital increase including MCBs issuance. However, exceptions in jurisdictions like Italy, where bylaws may bypass direct shareholder oversight, reveal gaps in harmonized safeguards, underscoring the tension between corporate flexibility and minority shareholder rights. MCB' capacity to consolidate dominant positions stems from their structural ability to recalibrate equity distribution and voting power. By mandating conversion into shares, issuers can strategically allocate equity to preferred investors, diluting existing shareholders while amplifying the influence of new stakeholders. Empirical studies have proven leveraged companies with distressed financial assets illustrate how MCBs enable issuers to stabilize balance sheets while quietly shifting control dynamics. For instance, preferential access granted to institutional investors or allied shareholders ensures post-conversion voting rights align with corporate objectives, effectively marginalizing dissenting voices. This mechanism is particularly potent in jurisdictions with lenient conversion price regulations, where issuers can engineer terms to favor specific cohorts, as seen in Indonesia's allowance for MCB-driven capital increases without pre-emptive rights. MCBs epitomize the paradox of hybrid instruments: their capacity to stabilize capital structures is inseparable from

[16] C. M. Lewis, R. J. Rogalski, and J. K. Seward, "Is Convertible Debt a Substitute for Straight Debt or for Common Equity?" Financial Management 28, no. 3 (1999): 5–27.

their potential to subvert shareholder voting power. As corporate strategies evolve in an era of financial globalization.

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