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Profit Participation Certificate

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A profit participation certificate is a form of security which is widely used in Switzerland, Germany and Austria. Profit participation certificates entitle their holders to dividends based on the performance of the issuing company, just like shares. But profit participation certificates differ from shares in that they are not title deeds which represent shares in company ownership. They also do not entitle their holders to vote on company decisions.

They are similar to bonds, with the difference that they do not represent a debt claim, but a dividend claim based on company profits. A bond simply entitles its holder to receive a predetermined amount of interest for a loan they give to a company. A profit participation certificate lets its holder benefit from higher dividends if the company's business grows. Unlike bonds, profit participation certificates do not have a nominal value.

Profit participation certificates are issued by companies as a means of raising capital, without having to take on new owners by selling their stock. Corporations may also issue profit participation certificates in addition to selling shares, as a means of raising additional capital.

Laws regulating profit participation certificates are less closely defined than those regulating shares. Depending on their individual terms and conditions, profit participation certificates may also be loss participation certificates which allow the issuing company to write off a portion of the invested capital if it makes a loss. Issuing companies may also allot special benefits or privileges to certificate holders through the terms and conditions of their profit participation certificates.

In Switzerland, profit participation certificates are divided into two different legal categories:

Dividend rights certificate (German: Genusschein, French: Bon de jouissance). This certificate entitles its holder to participate in the success of the issuing company. The law governing dividend rights certificates leaves a great deal of room for issuers to decide on the exact terms and conditions of their certificates. The basic right granted to holders of dividend rights certificates is the right to participate in dividend distributions. Dividend rights certificates can be issued by any category of company. However, they can only be obtained by investors who already have a stake in the issuing company (such as employees and shareholders).

Participation certificates (German: Partizipationsschein, French: Bon de participation). These are issued by corporations with the Aktiengesellschaft designation. The issuing company’s statutes must designate a fixed portion of the company’s capital as profit participation capital (See also: authorized share capital), and specify the number of profit participation certificates which this capital is divided between. Dividends are paid out on a per-certificate basis, as with shares. Participation certificates are very similar to preferred shares in that they have face values and do (unless otherwise specified) do not entitle their holders to voting rights. However, they differ from preferred shares in that they are not a title deed to ownership in a company, but simply a certificate of entitlement to dividend distributions. Ownership of participation certificates can be transferred from one owner to another. Because ownership is transferrable, participation certificates may be traded on stock exchanges in much the same way as shares.

Many small and mid-sized Swiss companies issue participation certificates. These are sometime incorrectly referred to as shares or as non-voting shares. Some participation certificates issued by mid-sized and large Swiss companies are traded on the SIX Swiss Exchange (SIX) or the Berne Exchange (BX). Demand for participation certificates is typically relatively low, resulting in illiquidity, and spreads between bid and ask prices are typically large.

Important: The term Partizipationsschein carries a different meaning in Austria than it does in Switzerland. In Austria, the term denotes a certificate with similar properties to a Swiss dividend rights certificate. In Germany, the term Genusschein is used as a general term for profit participation certificates.

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