



# Newsletter

Outlook AGM-Season 2018

1 / 2018

**Focus on the board of directors – Disclosure of board of directors' composition and board responsibilities, especially in the area of corporate social responsibility, continues to gain importance with investors**

Zurich, January 30, 2018 - In the upcoming AGM season, investors will focus more on the board of directors and increasingly assign the responsibility for strategic, compensation-related and personnel decisions to individual board members directly. For this reason, a more comprehensive and individually tailored disclosure of the board's composition, its activities and responsibilities clearly become more important. – Investors' requirements regarding remuneration-related disclosure are continuously increasing, particularly in the area of performance-related remuneration. – The topic of Corporate Social Responsibility (CSR) is not only gaining additional prominence in the public domain, but also to institutional investors. It will, therefore, be extremely important for companies to demonstrate how they deal with CSR issues, what their long-term contribution to social welfare is, and how responsibilities for the relevant processes within the company are structured and assigned, in particular on the level of the board of directors.

## Upcoming Events

February 12, 2018  
Investor Roundtable (London)  
Outlook GV Saison 2018

February 20, 2018  
Event for board members (by invitation)  
Governance Activism/Investor Behavior

June 2018  
Publication  
SWIPRA Analysis AGM Season 2018

November 7, 2018  
Presentation Key Findings  
SWIPRA Corporate Governance Survey

December 12, 2018  
Event (by invitation)  
Swiss Corporate Governance Dialog

## Board of Directors

Shareholders' requirements regarding the disclosure of composition, responsibilities and activities of the board are increasing and will have a growing impact on voting outcomes to the extent issuers are not responding adequately. Specifically, investors will be more differentiated in taking their voting decisions for board candidates and increasingly hold individual candidates responsible. For example, they may vote against the election of a board's chairman if the explanation of the composition of the board is considered insufficient or if there is an unexplained lack of diversity on the board. Similarly, the chairman of the compensation committee may not be supported if disclosure in the area of compensation, in particular regarding traceability of performance-related compensation are considered inadequate.

Understandably, investors consider the elections to the board of directors to be the most value-relevant item on the AGM agenda. As a consequence, the related disclosure requirements of major investors often exceed

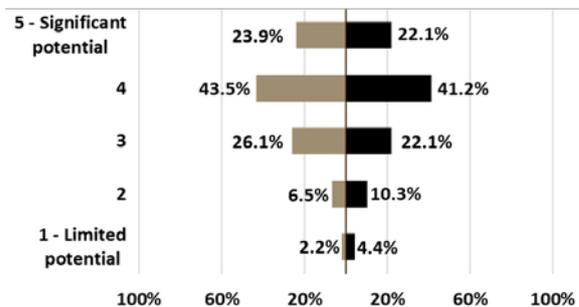


## Resolutions for a better governance in Switzerland

The SWIPRA Panel of Experts promotes within its own companies and encourages the boards of directors of other listed companies as well as Swiss and international investors to actively and regularly exchange views on corporate governance issues. It needs to be ensured that companies are assessed on an individual basis, also taking into account specific Swiss circumstances, and not primarily on the basis of generalized "tick-the-box" systems. Better mutual understanding should further help to minimize additional governance-related regulation. In addition, the Panel of Experts considers the continuous improvement of disclosure in general, and particularly related to the board of directors' accountability for corporate social responsibility and the composition of the board of directors to be particularly important. The Panel of Experts recognizes the intrinsic value of various diversity criteria in the board's composition and actively promotes a balanced mix of experience, skills and background. At the same time a balanced gender representation should be ensured. The Panel of Experts rejects, however, regulation requiring a minimum gender quota as provided for in the ongoing revision of the Swiss Company Law, but emphasizes the importance of diversity targets for the board composition, adapted to the individual situation of a company.

the requirements of regulations and general guidelines considerably. In the international context, this is particularly true for Swiss companies; "comply or explain" is no longer sufficient. Major institutional investors increasingly wish to understand the targets and processes pursued by companies to improve diversity (technical as well as personal criteria) on the board and the executive committee (see *Figure 1*). Similarly, they want to understand the actual availability of individual board members

*Figure 1: How do you assess the potential of diversity on the Board of Directors for value creation in the company? (Source: SWIPRA Corporate Governance Survey 2017; left: Investors, right: Company)*



to the company. Therefore, providing only historical information regarding board composition and availability no longer satisfies investors' information needs as they are looking for a discussion of the renewal process within the board, in particular how the composition of the board will be aligned with the company's strategy. In this context, so-called competence- and diversity matrices are being used more and more to compare the status quo with the targeted mix of knowledge, experience and personal diversity on the board. In this regard, investors are generally looking for a possibility to discuss the active management of the board composition directly with the chairman of the board, the responsible person for the board renewal process. This dialog is particularly relevant to avoid that board candidates are assessed on the basis of uniform standard criteria.

## Legal Development

Schweiz

Corporate Responsibility Initiative

UK

Update Corporate Governance Code

EU

Shareholder Rights Directive



## Compensation

The rising and in the international context relatively high rejection rates of remuneration reports in Switzerland (see [SWIPRA AGM Analysis 2017](#)) can to some degree be attributed to the fact that investors continue to regard disclosure, particularly in the area of performance-related remuneration and the functionality of the remuneration system, as inadequate (see [SWIPRA Corporate Governance Surveys 2016/2017](#)). It is in the issuers interest to address these disclosure-related reservations even better during the upcoming AGM season in order to reduce the rejection risk of (also binding) remuneration votes (see [SWIPRA Corporate Governance Survey 2017](#)).

<b>Proxy Advisors 2018</b>
ISS
<b><u>Guidelines Europe 2018</u></b>
Glass Lewis
<b><u>Guidelines Switzerland 2018</u></b>
Ethos
<b><u>Guidelines Switzerland 2018</u></b>

In particular, this includes a more transparent disclosure of the development of performance indicators relevant to remuneration and the resulting target achievement rates for the variable remuneration elements. At the same time, however, the demands on compensation disclosure in other areas are also increasing:

- Investors are calling for greater transparency on how remuneration incentives promote the implementation of the company's strategy and what long-term contribution the company can make to stakeholder value and social welfare. More and more important in this context is a discussion of the targeted corporate culture and the desired behaviors in the company.
- Investors are increasingly critical of raising executive remuneration levels, particularly if justified only by a peer benchmark analysis. Instead, shareholders started to take the view

that changes in the level of management compensation should be in line with corresponding changes in compensation levels of the entire company. As a consequence, benchmarking should increasingly also take into consideration the development of company-internal compensation levels.

- Adjusted (non-GAAP) performance measures are frequently used in performance-based management compensation, but are often not directly related to the actual development of the company's value. These measures are often determined discretionarily and, consequently, are difficult to reconcile for the outside. Investors, therefore, view these measures particularly critically.

<b>Engagement Priorities</b>
<b><u>Blackrock</u></b>
<b><u>Fidelity</u></b>
<b><u>Legal &amp; General</u></b>
<b><u>Norges Bank Investment Management</u></b>
<b><u>UBS Global Asset Management</u></b>
<b><u>Vanguard</u></b>

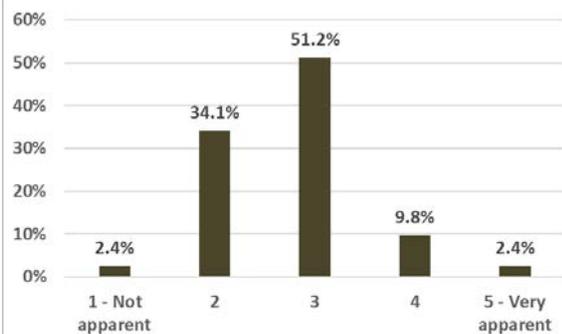
## Corporate Social Responsibility

CSR topics continue to gain importance and should not be seen as a fashionable phenomenon only: CSR considerations are increasingly incorporated into stewardship codes as well as governance analyses and investment processes of institutional investors. This is based on the principle that the board should represent a broad-based, longer-term stakeholder view in order to sustainably increase the value of the company. From an external perspective, it is often unclear how companies anchor corporate social responsibility in their strategy and what the role and related responsibilities of the board are. The



findings of the [SWIPRA Corporate Governance Survey 2017](#) showed that investors are explicitly calling for a better corresponding disclosure (see *Figure 2*). Shareholders may become increasingly critical of the election of the chairman of board or the board composition more generally, in case such information is not made adequately available. In SWIPRA's view, investors and issuers should intensively seek a common understanding regarding the relevance and the disclosure of CSR topics in view of the AGM season 2018 and beyond.

*Figure 2: How apparent are the responsibilities within the company for Corporate Social Responsibility and Sustainability matters disclosed? (Source: SWIPRA Corporate Governance Survey 2017; Sample: investors)*



This will foster an efficient achievement of long-term objectives and help to pre-empt potentially distorting regulatory efforts. Those are gaining momentum, particularly in Switzerland as a result of the corporate responsibility initiative. If the initiative's demands become generally accepted in the population, the legal risks and requirements for Swiss-domiciled companies and their boards of directors will increase significantly and likely lead to a substantial competitive disadvantage. At the same time, it is by no means clear how the initiative should achieve the goal that companies may better

address their CSR-related tasks and challenges to generate economic and social value.

### **Engagements and governance activism**

Individual, strategically relevant key processes and responsibilities determine the corporate governance framework of each single company. SWIPRA has been pointing out the importance of a proactive interaction on corporate governance topics between investors and the board, so called "engagements". For the AGM season 2018, such engagements should generally focus on the topics discussed in this newsletter. Regular engagements and the continuous enhancement of the quality of corporate disclosure are important confidence-building instruments for the board of directors, particularly in current times of intensifying stakeholder activism.

### **Further publications**

[Opinion Partial revision of the SIX Corporate Governance Directive](#)

[SWIPRA AGM Analysis 2017](#)

[SWIPRA Corporate Governance Survey 2017](#)

#### **About SWIPRA Services AG**

We promote a constructive dialogue on corporate governance between investors and listed companies with the objective of achieving long-term and sustainable value generation. With our scientifically-based, objective and market-oriented view on corporate governance, we support investors in the responsible exercise of their shareholder rights and companies in the structuring and disclosure of their corporate governance. [www.swipra.ch](http://www.swipra.ch)

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