



SWISS PROXY ADVISOR  
FOUNDATION FOR VALUE  
BASED INVESTMENTS

# **Status Quo and Perspectives of Corporate Governance in Switzerland**

**January 30, 2014**



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# Welcome and introduction

**Barbara Heller, SWIPRA CEO**



# Welcome

- General remarks and welcome
- Corporate Governance Survey 2013
  - All SPI® Companies
  - Swiss Institutional Investors, in particular pension funds
- Corporate Governance Survey 2014 and beyond
- Special thanks to





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# Status Quo and Perspectives of Corporate Governance in Switzerland

**Prof. Alexander F. Wagner, Ph.D.**



# Plan for this presentation

- Survey results
  - Basic information
  - Investor behavior
  - Compensation
  - Board of Directors
  - Payout
  - Capital Structure
  
- SWIPRA's interpretation of the survey results
- Implications for the 2014 proxy season

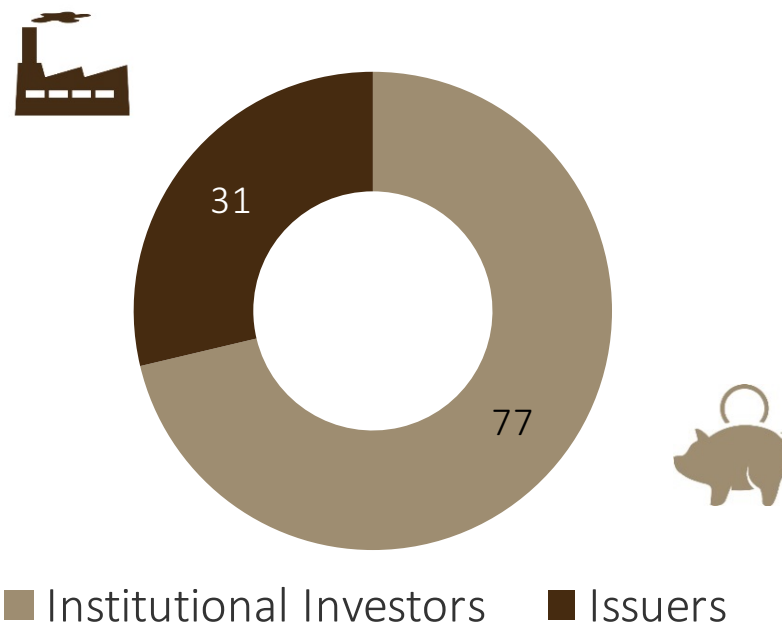


# Plan for this presentation

- **Basic information on the survey**
- Investor behavior
- Compensation
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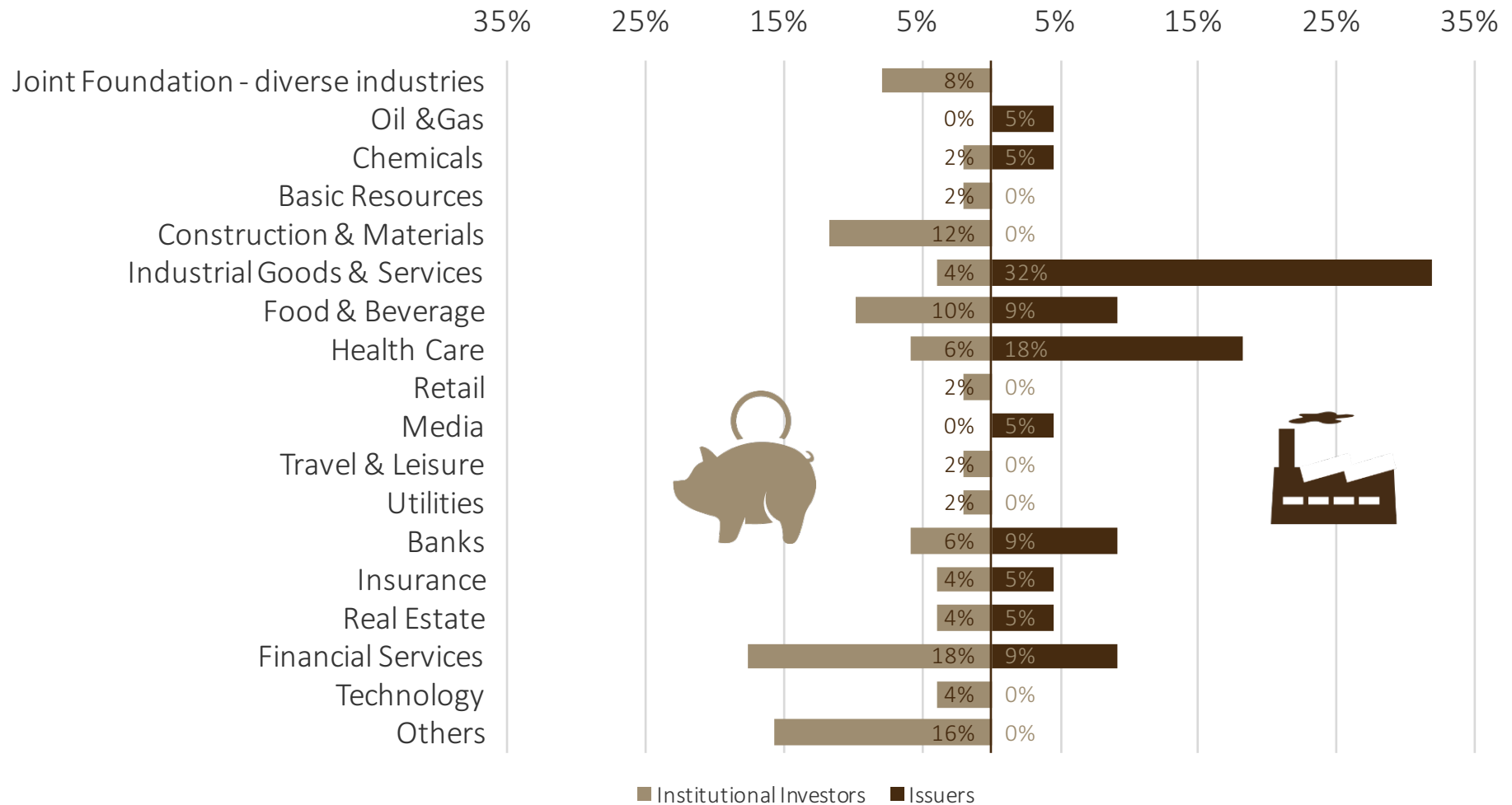
# Participants



A total of 108 participants filled out the survey.



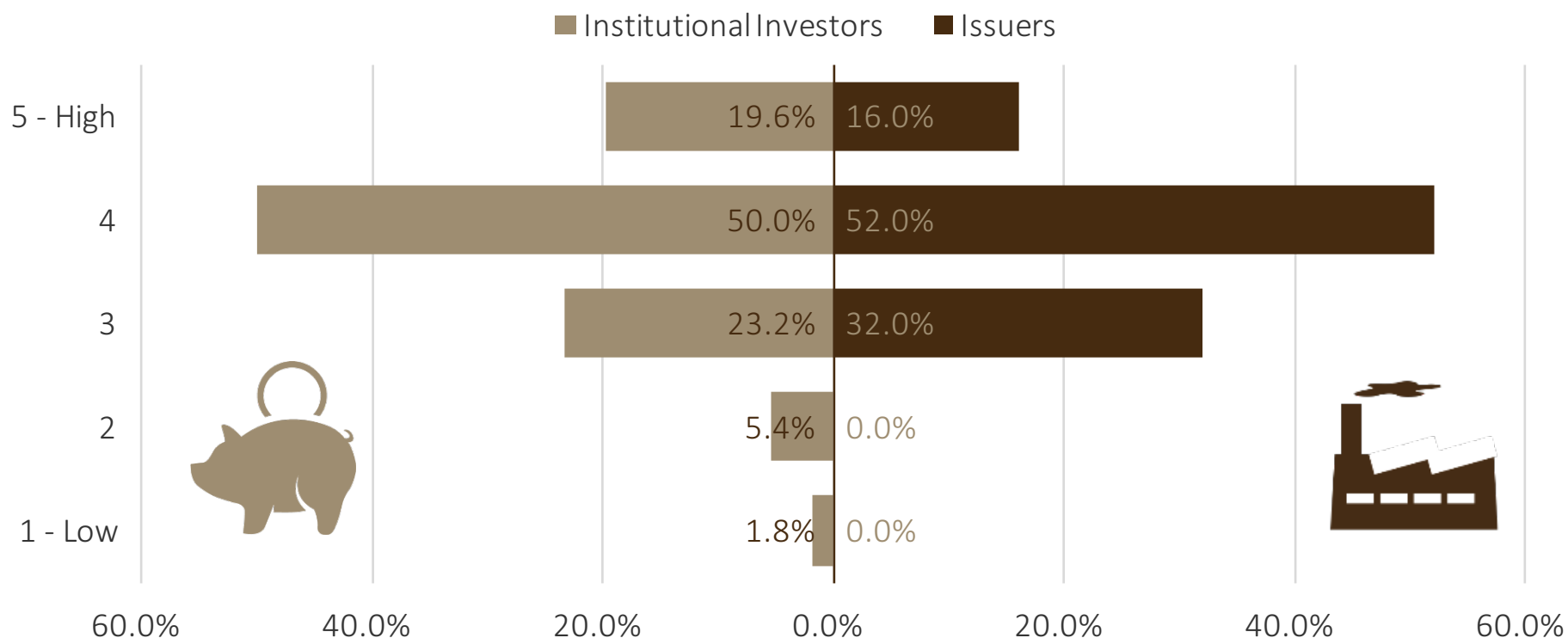
# Participating industries







# Comprehensibility of survey



Most unclear topic: **Capital Structure**      **Remuneration**

The average time to complete the survey was 28 minutes for both groups.



# Summary:

## The survey: Basic information

- 108 participants:
  - 77 institutional investors
  - 31 issuers
  
- Broad range of industries
  
- Survey was well-understood



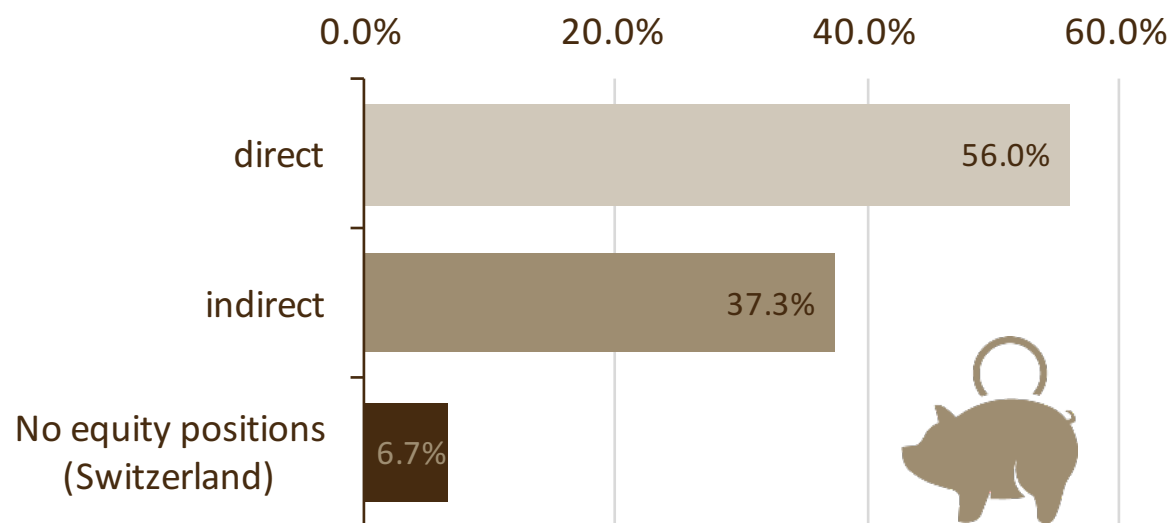
# Plan for this presentation

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# Investment in Swiss shares

How was your organization mainly invested with regard to equity positions (Switzerland) before the Abzocker-Initiative was approved?

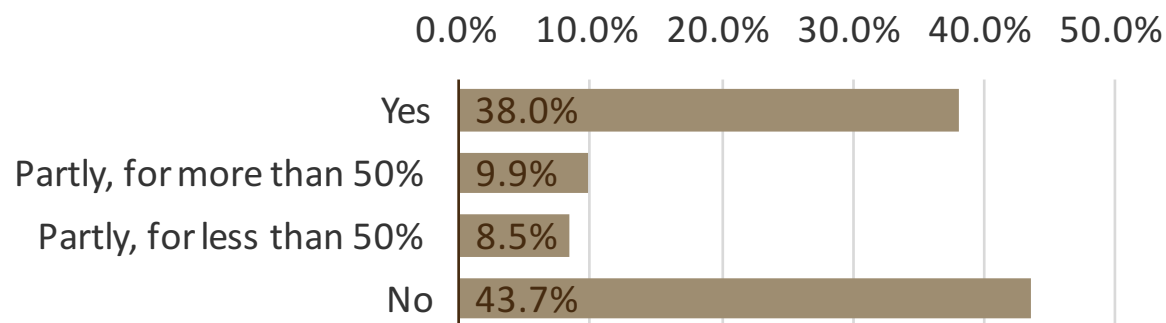


- 56% of institutional investors were invested directly, 37% were invested indirectly in Swiss shares.
- 96% of institutional investors do not intend to reduce their direct investments in Swiss shares due to the Abzocker-Initiative.



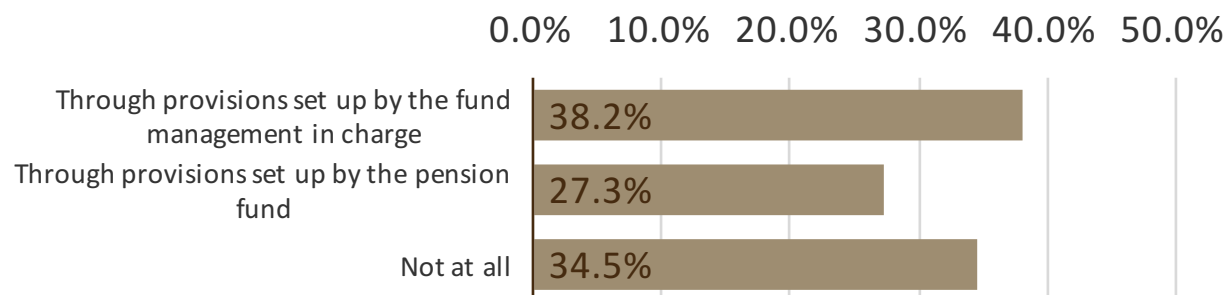
# Use of voting rights

## Active use of voting rights for equity positions (Switzerland)



- More than 50% have not, or only to a minor extent, made use of their voting rights and 43% will only use their voting rights for direct investments if they are obliged to do so.

## How will you ensure the protection of interests of the insured/investors?



- A third does not plan to reflect the interests of their insured/investors in indirect investments.

Question I: Has your organization actively used its voting rights at the annual general meeting prior to the approval of the Abzocker-Initiative?

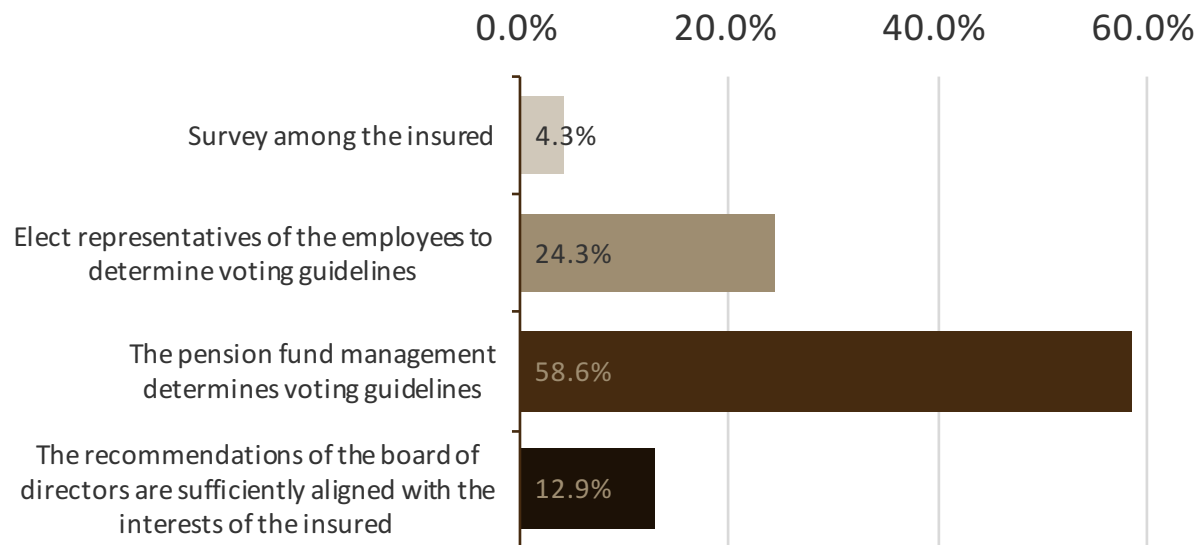
Question II: In case your organization does not plan to actively use its voting rights for indirect investments, how will you ensure the protection of interests of the insured?



# Interests of the insured

According to the Abzocker-Initiative, pension funds are required to use their voting rights in the best interest of their insured. Please indicate how pension funds (and institutional investors in general) should, in general, determine these interests.

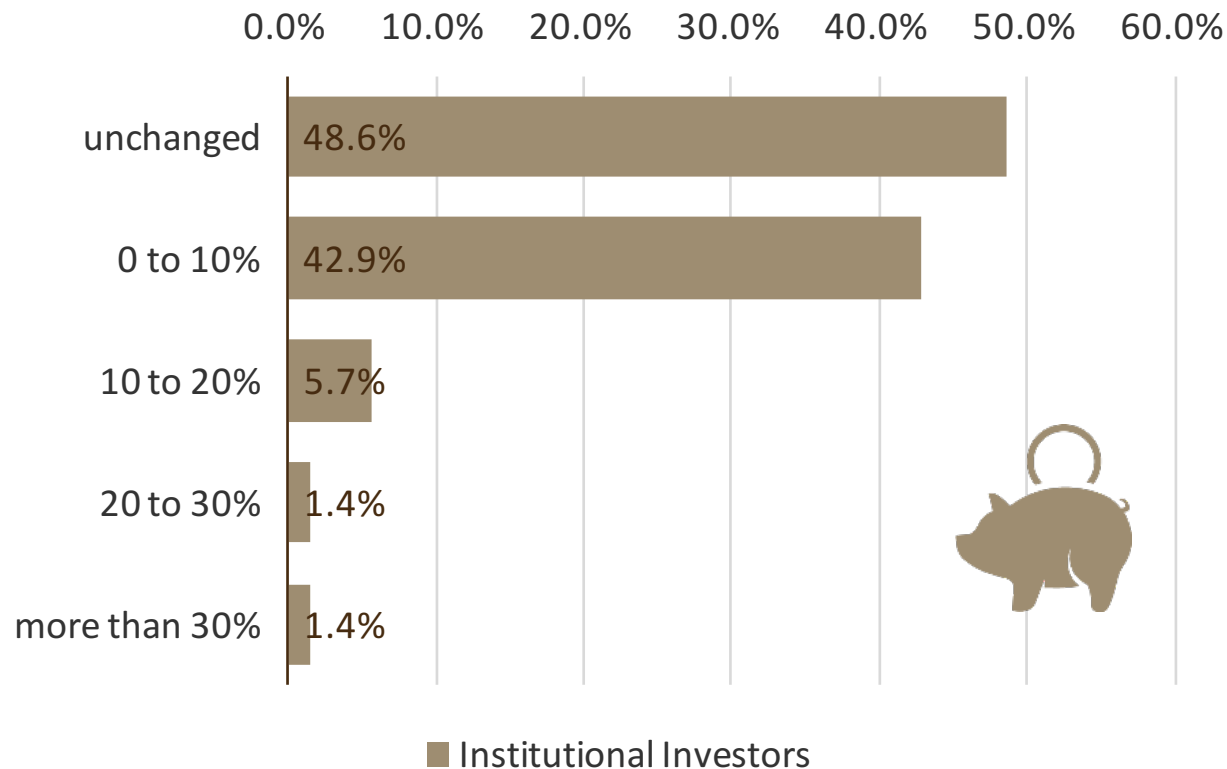
➤ Defining what is the «interest of the insured» is perceived as very difficult by pension funds.





# Administrative costs

Expected increase in administrative costs



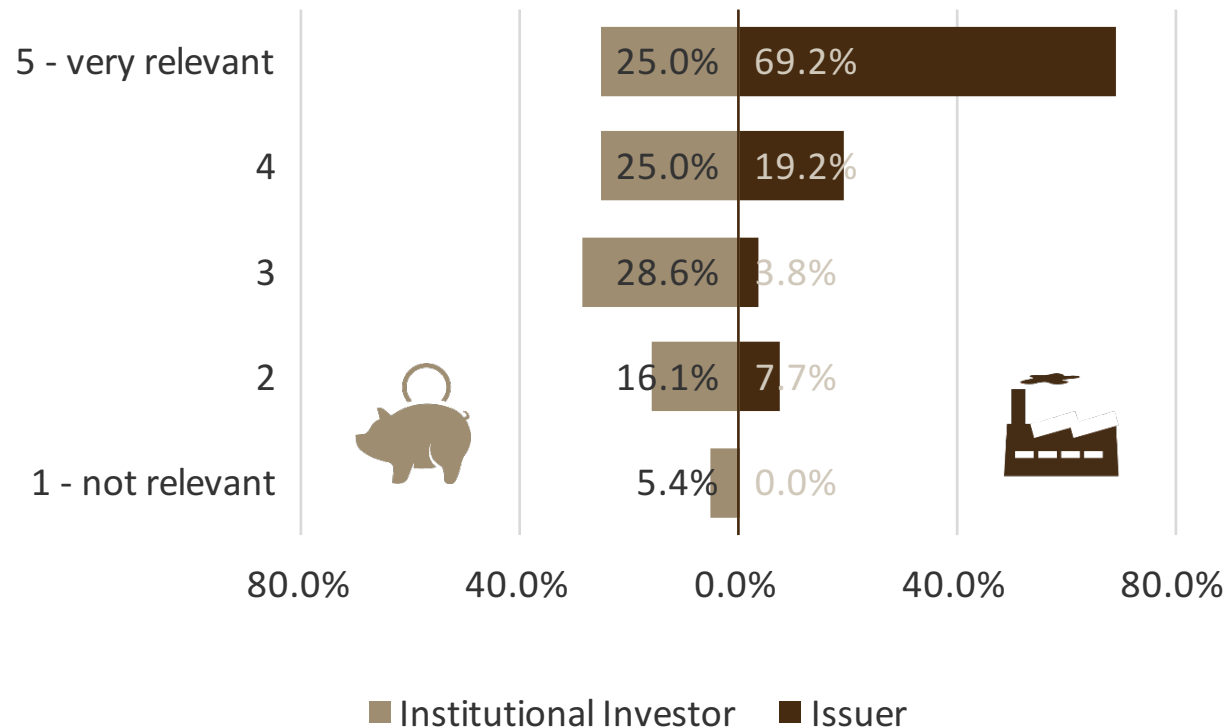
- About half of the institutional investors believe that their administrative costs will remain the same.
- 40% believe the costs will increase about 0 to 10%.
- Some believe costs will increase more.

Question: What is the expected impact of the Abzocker-Initiative on the administrative costs for your organization (change in % compared to 2012)?



# Source of information

## Invitation to the shareholder meeting



- Issuers state that it is the invitation to the AGM that should reveal most information with respect to the AGM.
- Shareholders do not see the value to the same extent.

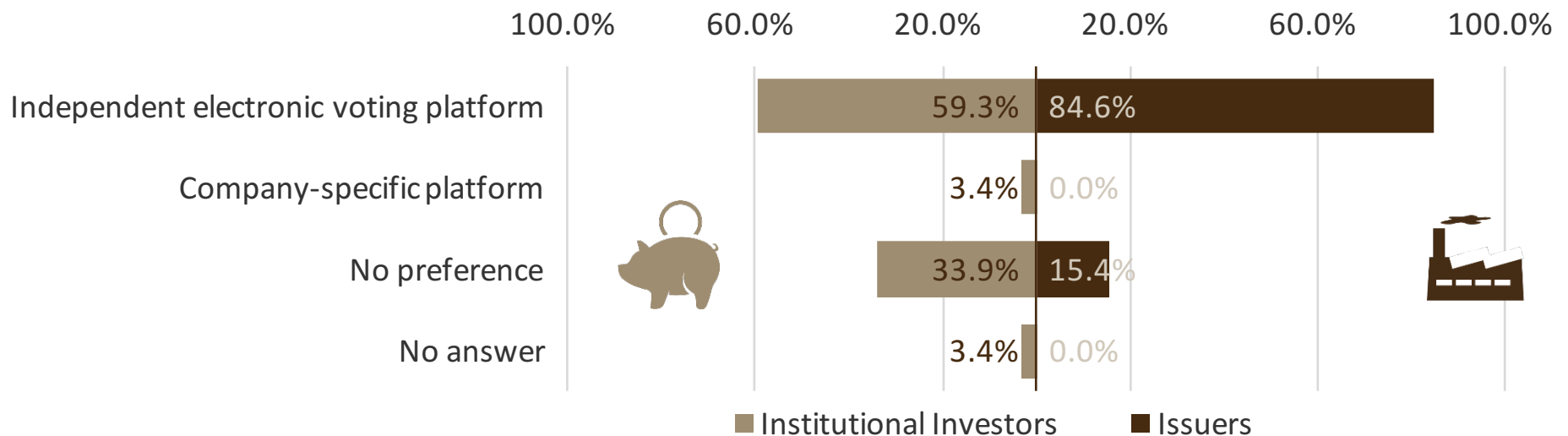
Question: Please indicate the relevance of the following sources of information when forming an opinion on how to make use of the shareholder voting rights.



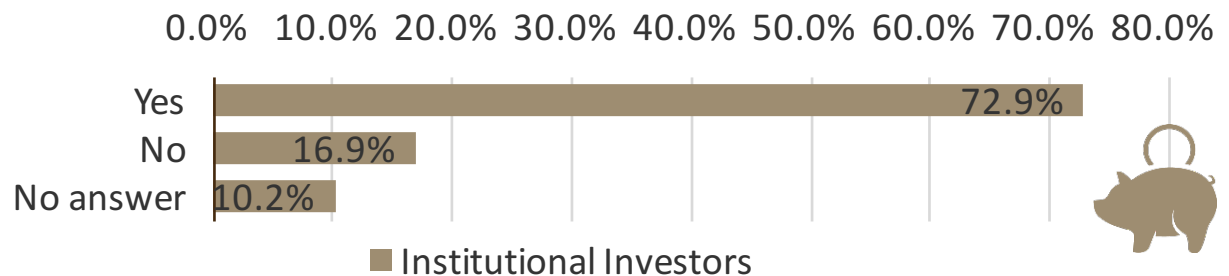


# Electronic voting

Which of the following settings regarding an electronic proxy voting platform would you prefer?



Would you rather make use of your shareholder voting rights if the possibility of electronic proxy voting would exist?





# Implications: Investor behavior

- While institutional investors do not yet seem to prepare to substantially change their investment or voting behavior, some important developments are ongoing.
- For institutional investors, SWIPRA Policy Considerations – which are geared towards long-term investors – can provide some guidance
- In SWIPRA’s view, issuers should make the invitation to the AGM to be in fact as valuable for shareholders as it is currently thought to be by the issuers.



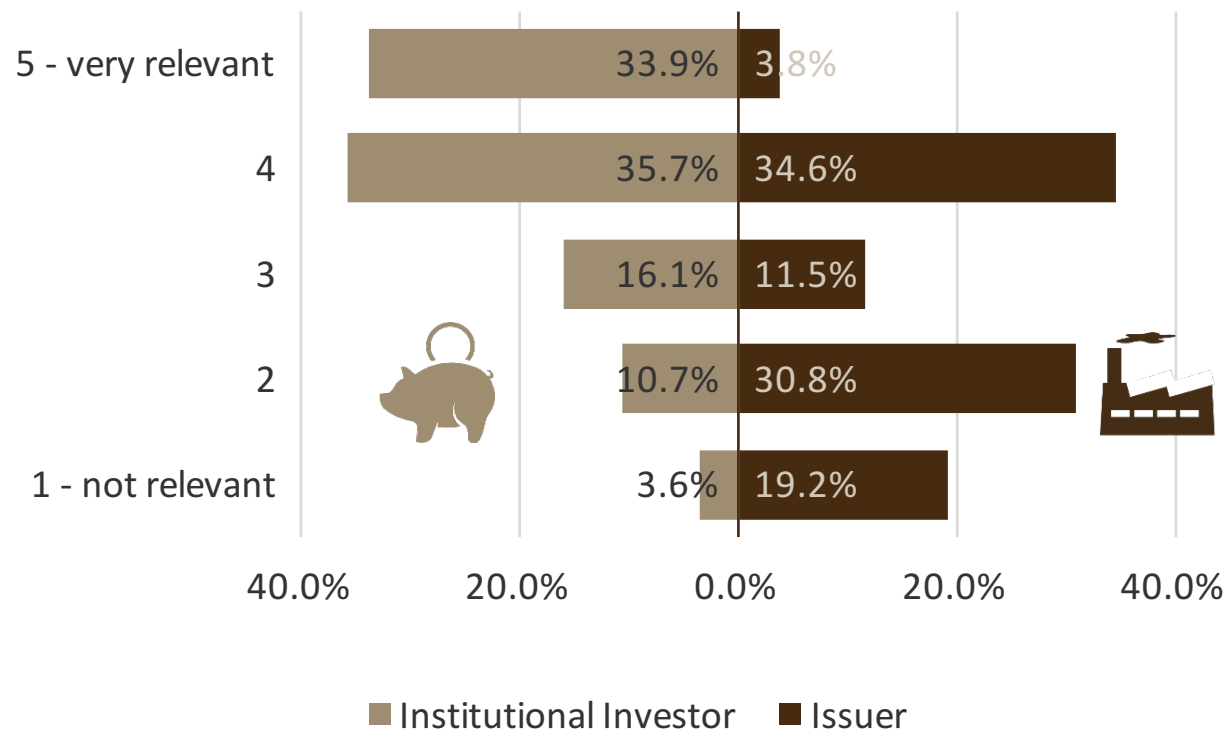
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- **Compensation**
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# Compensation disclosure 1/5

Explicit specification of the quantitative goals related to compensation



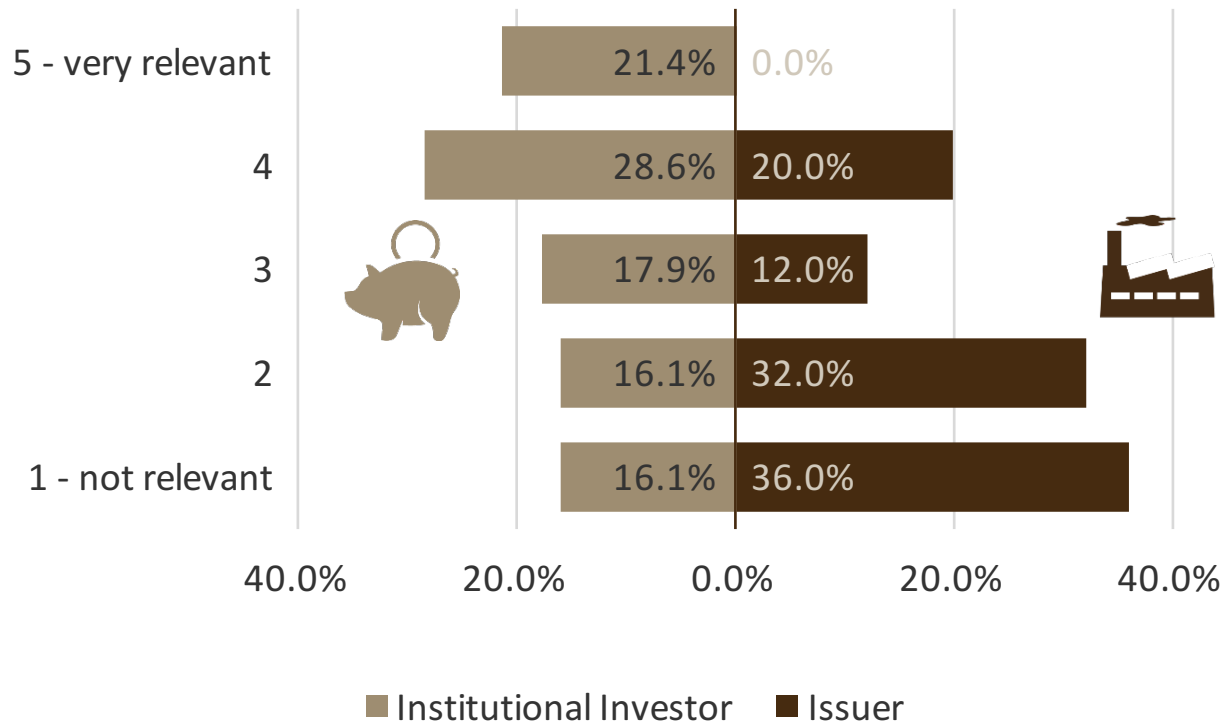
➤ 70% of institutional investors the disclosure of quantitative goals is very relevant or relevant, as opposed to less than 40% of issuers.

Question: Certain companies publish the following items in detail in their compensation report. How important are, in your opinion, these items for a compensation report?



# Compensation disclosure 2/5

Explicit presentation on whether the individual compensation relevant goals for the board of directors / the executive management members were achieved



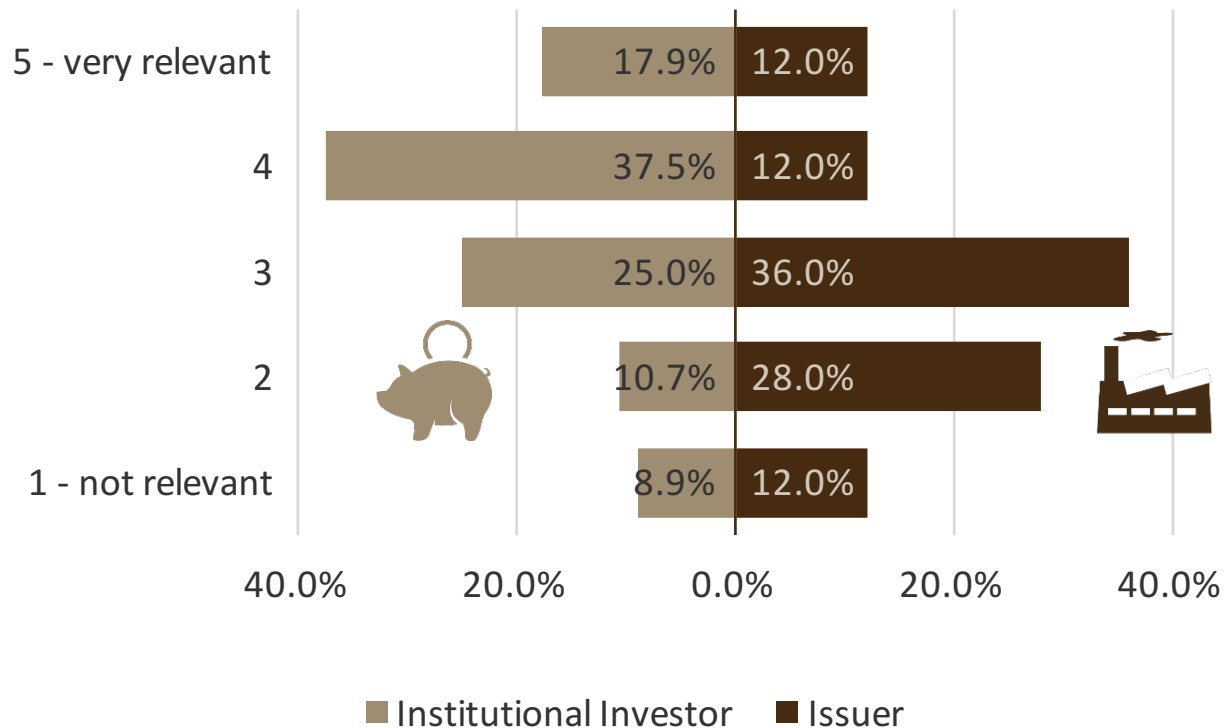
➤ 50% of institutional investors have a strong preference or some preference for issuers disclosing individual goal achievement levels of executive committee members, while no single issuers regarded this as very important, and only 20% regarded it as important.

Question: Certain companies publish the following items in detail in their compensation report. How important are, in your opinion, these items for a compensation report?



# Compensation disclosure 3/5

Graphical presentation of the compensation payout profiles, showing caps and floors



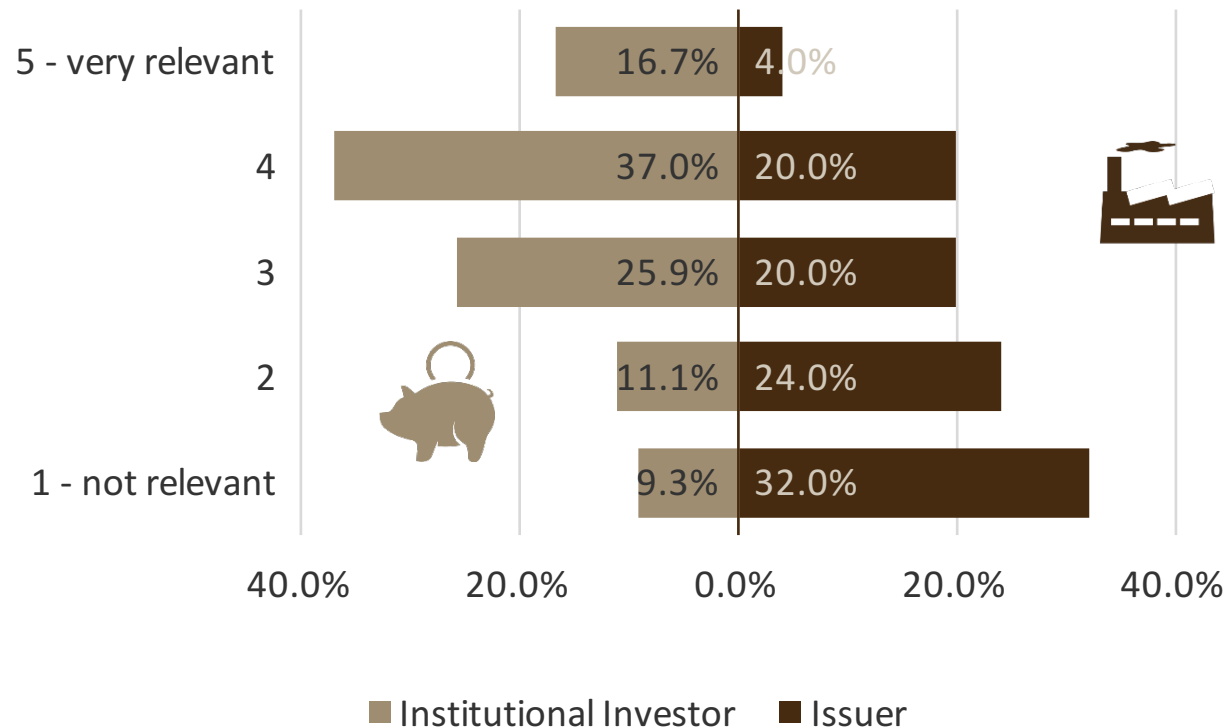
- More than half of the investors would like issuers to graphically present payout profiles.
- By contrast, only a quarter of issuers regard graphic presentations of payout profiles as relevant.

Question: Certain companies publish the following items in detail in their compensation report. How important are, in your opinion, these items for a compensation report?



# Compensation disclosure 4/5

Description of likely business development and their effect on compensation



- More than half of the institutional investors would also like to see scenarios and implications for the compensation.
- Only a quarter of issuers think that scenarios should be discussed in the remuneration report.

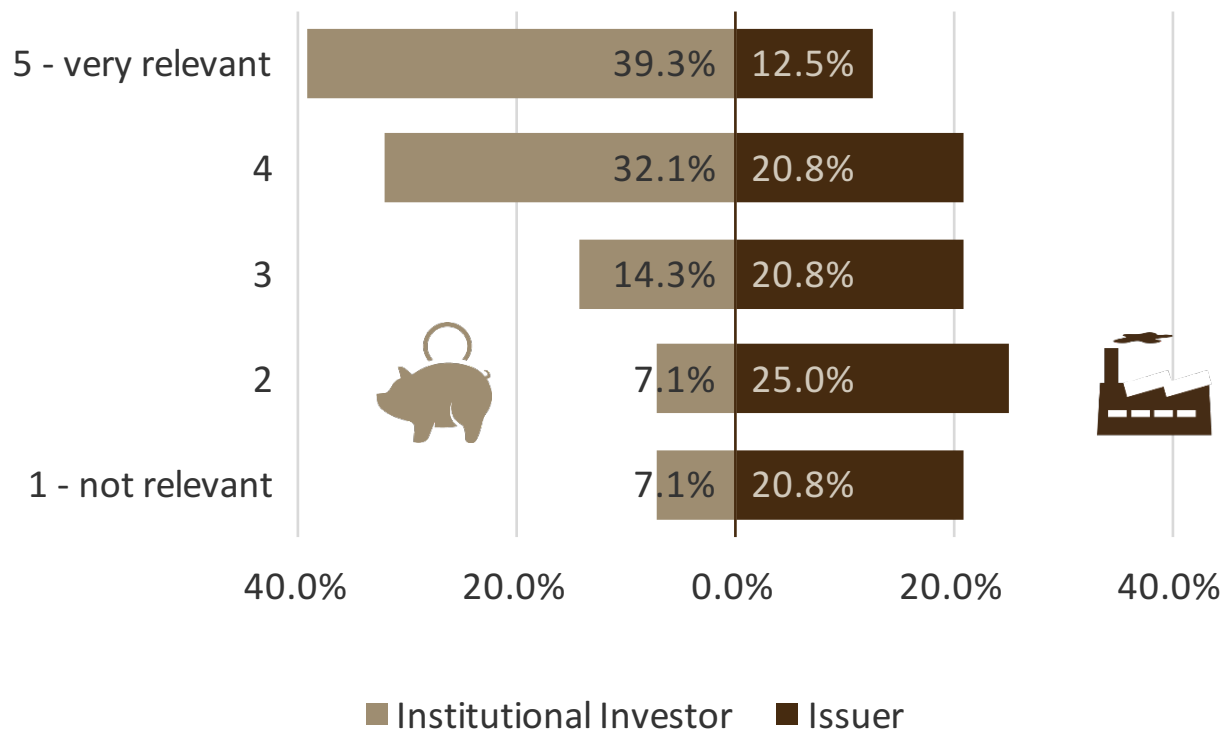
Question: Certain companies publish the following items in detail in their compensation report. How important are, in your opinion, these items for a compensation report?



# Compensation disclosure 5/5

Effective compensation is presented for all members of the board of directors and the executive management (effective costs for the company ex post)

➤ 70% of institutional investors regard a disclosure of effective compensation as essential, whereas only 30% of issuers share this view.



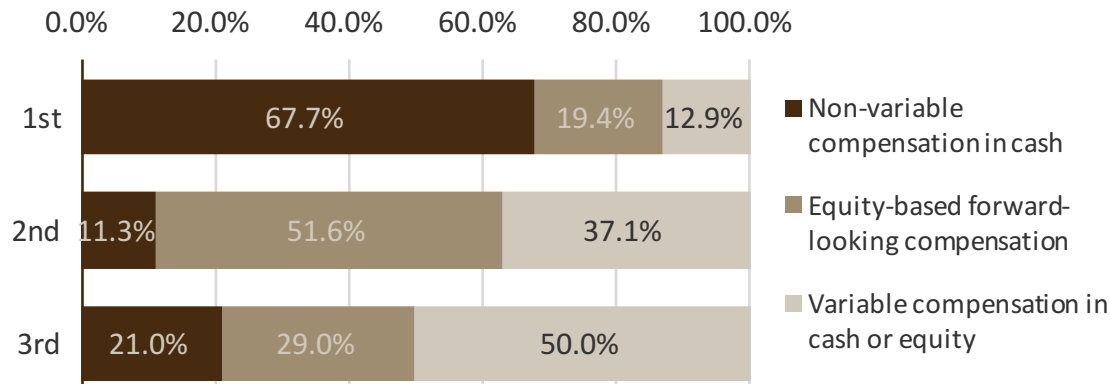
Question: Certain companies publish the following items in detail in their compensation report. How important are, in your opinion, these items for a compensation report?



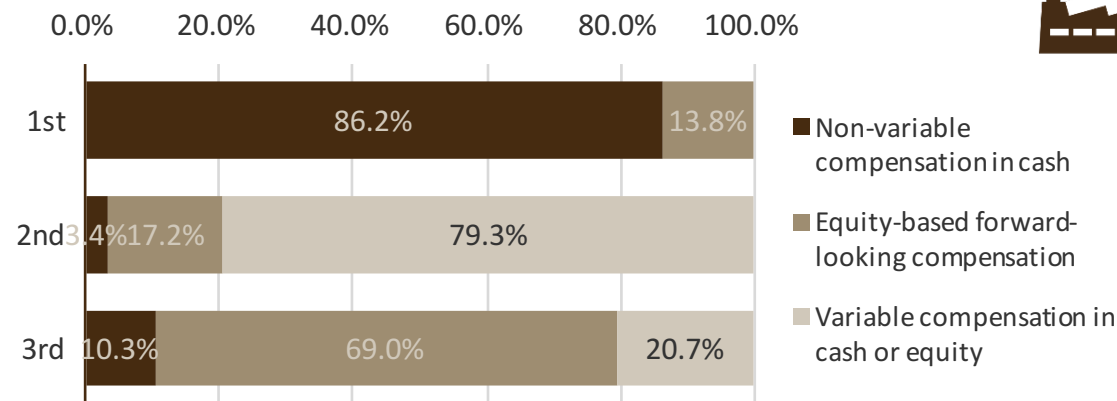


# Executive compensation

Please indicate your preferred rank order for the relative size of the following compensation items for the executive management



➤ Both from the perspective of institutional investors and issuers, base pay should be the most important component of total compensation for executives.

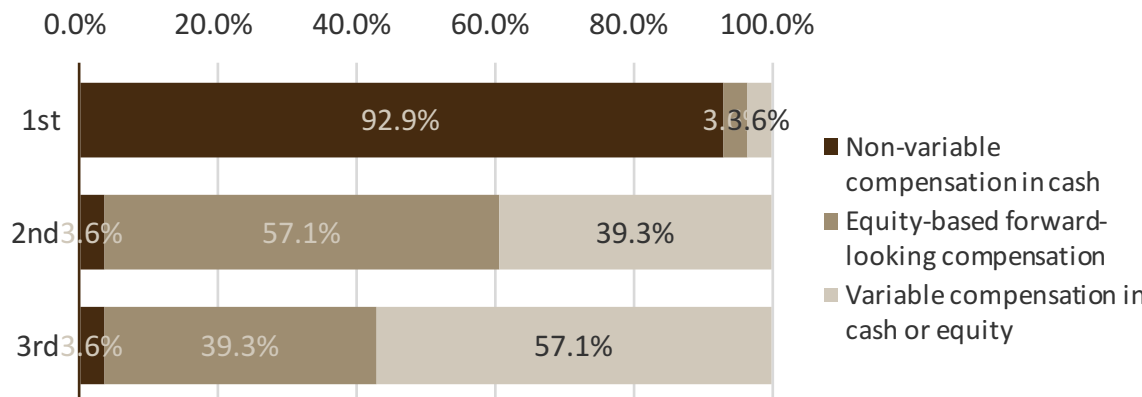
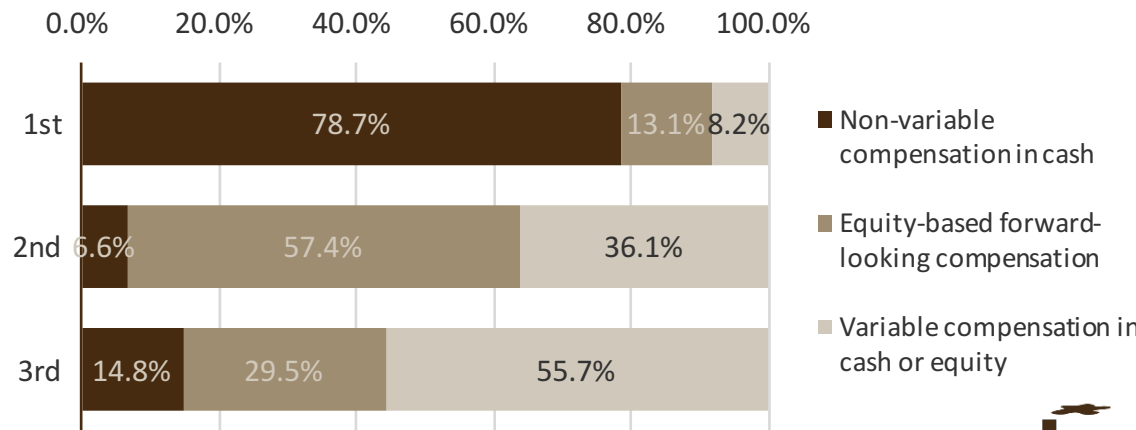


➤ But: For more than 50% of investors, equity-based pay should be the 2<sup>nd</sup> most important component; by contrast, for about 80% of issuers the bonus should be the 2<sup>nd</sup> most component.



# Board compensation

Please indicate your preferred rank order for the relative size of the following compensation items for the board of directors



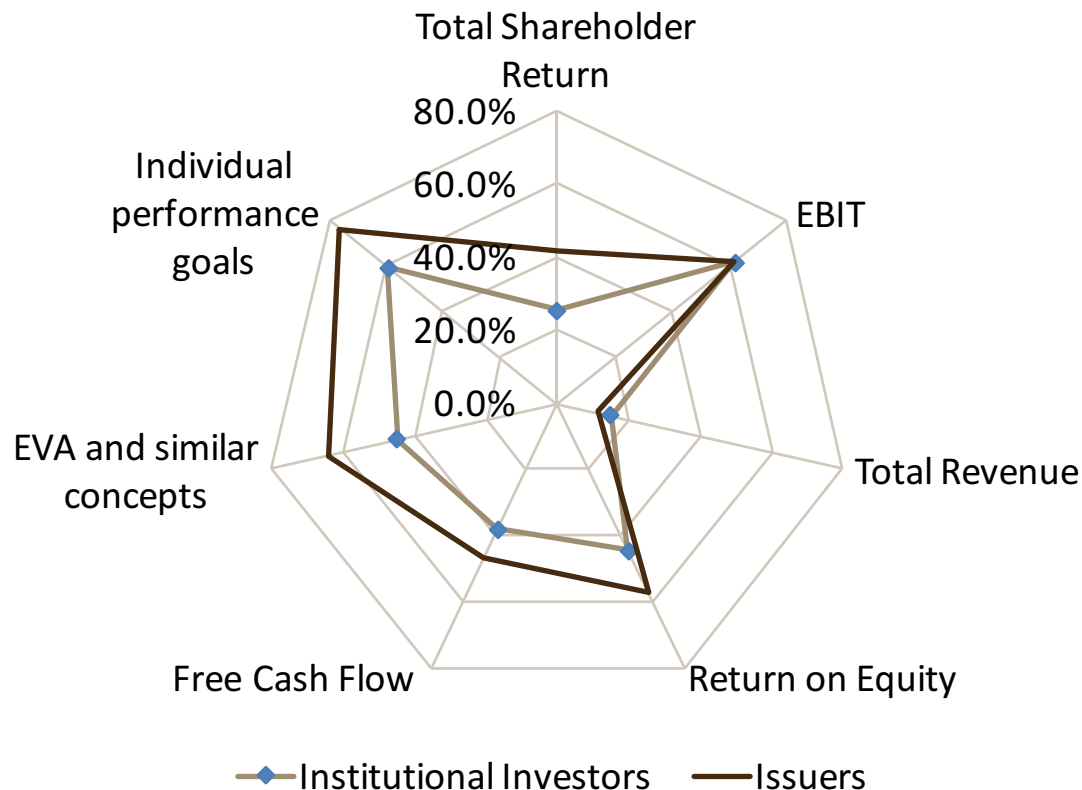
➤ For board members, investors and issuers alike regard the relative ordering (1) fixed pay, (2) incentive-for-future-performance, and (3) reward-for-past-performance bonuses as appropriate.





# Performance measures

## Performance measures



- The chart shows the percentages of the institutional investors and issuers who find the corresponding performance measure suitable or very suitable.
- There are significant differences in opinion between investors and issuers

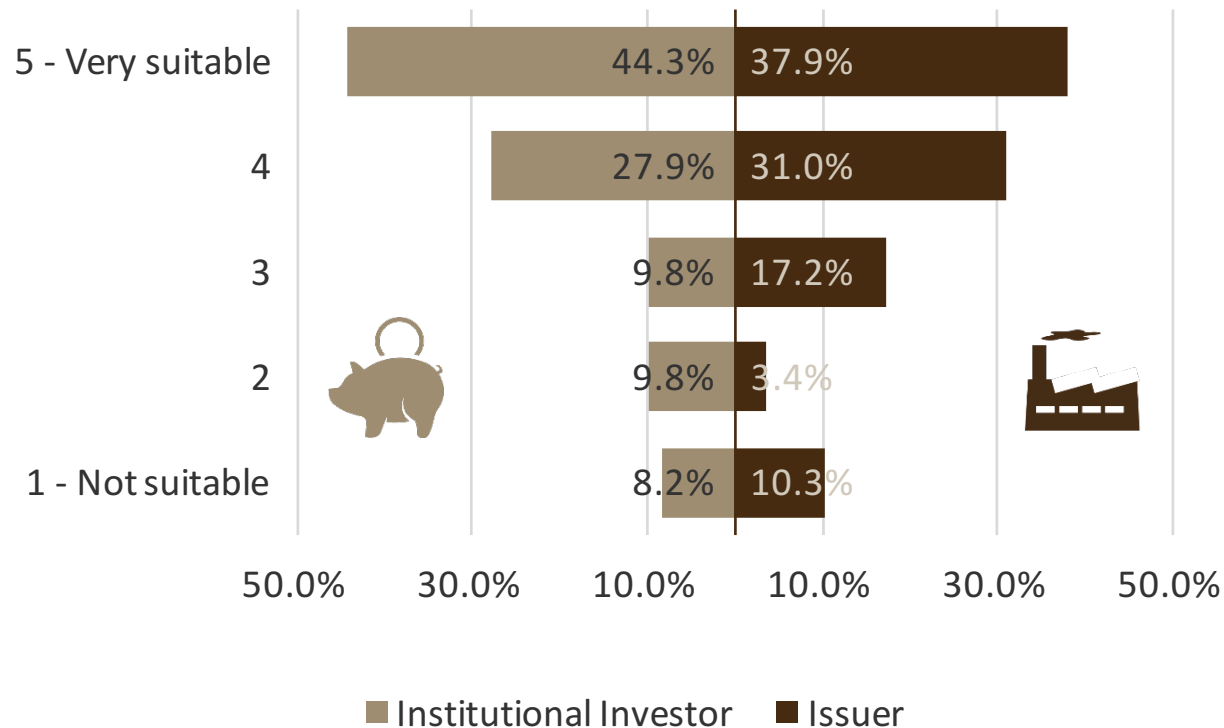
Question: Please indicate how suitable the following performance measures are, in general, to determine the variable compensation component.



# Compensation Cap

## Upper bound (cap)

➤ Most survey respondents think compensation caps are a valid part of the compensation system.



Question: Beside a lower bound (floor), e.g., the not performance linked base salary, there is the possibility to set an upper bound (cap) for the overall compensation. How suitable is, according to your opinion, such a cap as part of the compensation system?



# Implications: Compensation 1/2

- Disclosure is very important
  - Especially in light of prospective vs. retrospective voting on compensation
  - Value reporting helps *generate* value
- Institutional investors and issuers have quite different views on what is to be expected in terms of disclosure.
- There are some quick wins for issuers: Graphical presentation, scenarios



# Implications: Compensation 2/2

- Survey also provides evidence that institutional investors would like companies to be more long-term oriented and also more retention-oriented than what issuers currently target.
- Compensation caps are in fashion. But they also have drawbacks.
- SWIPRA Policy Considerations: Focus on value generation. One size does not fit all.



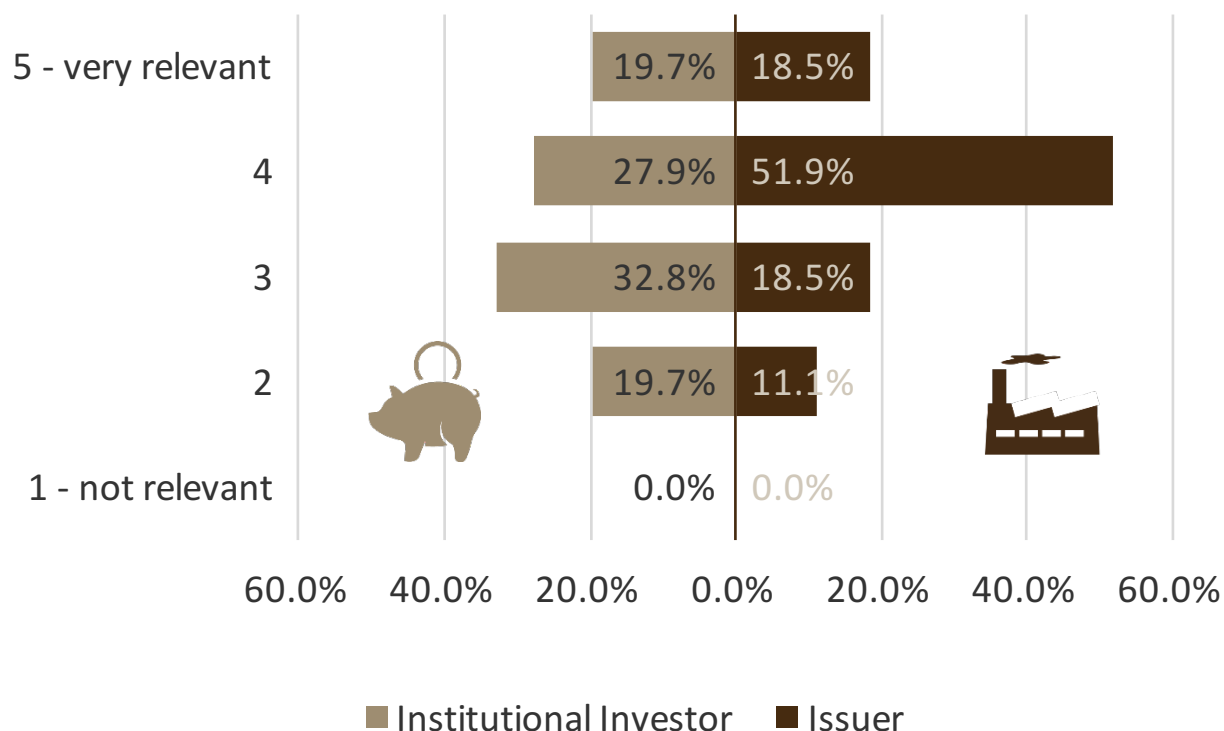
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# BoD Qualification 1/2

## Experience as member of the board of directors



- More than 70% of issuers believe that experience as a board member is a very important or important selection criterion for future board members.
- Institutional investors do not share this view as strongly

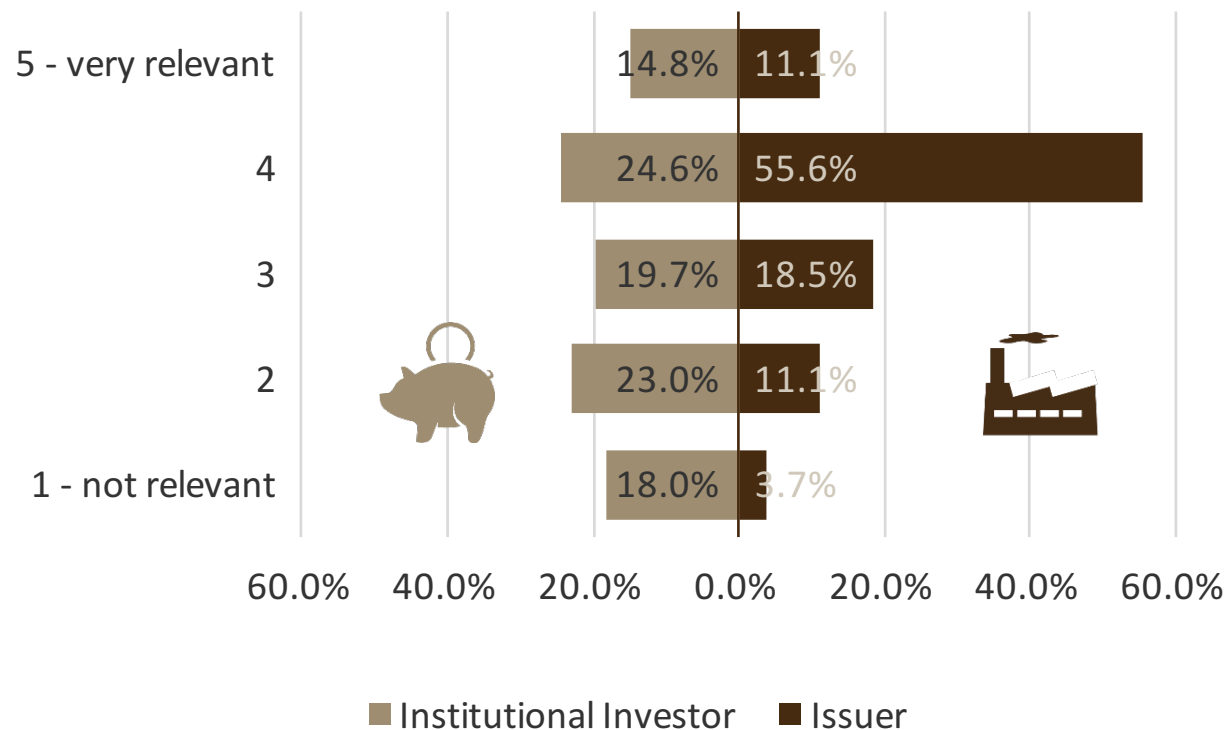
Question: Please indicate the importance of the following factors in determining the fit of a prospective member of the board of directors of a publicly traded Swiss corporation.





# BoD Qualification 2/2

Increasing the personal diversity of the board (country of origin, ethnicity, gender, age)



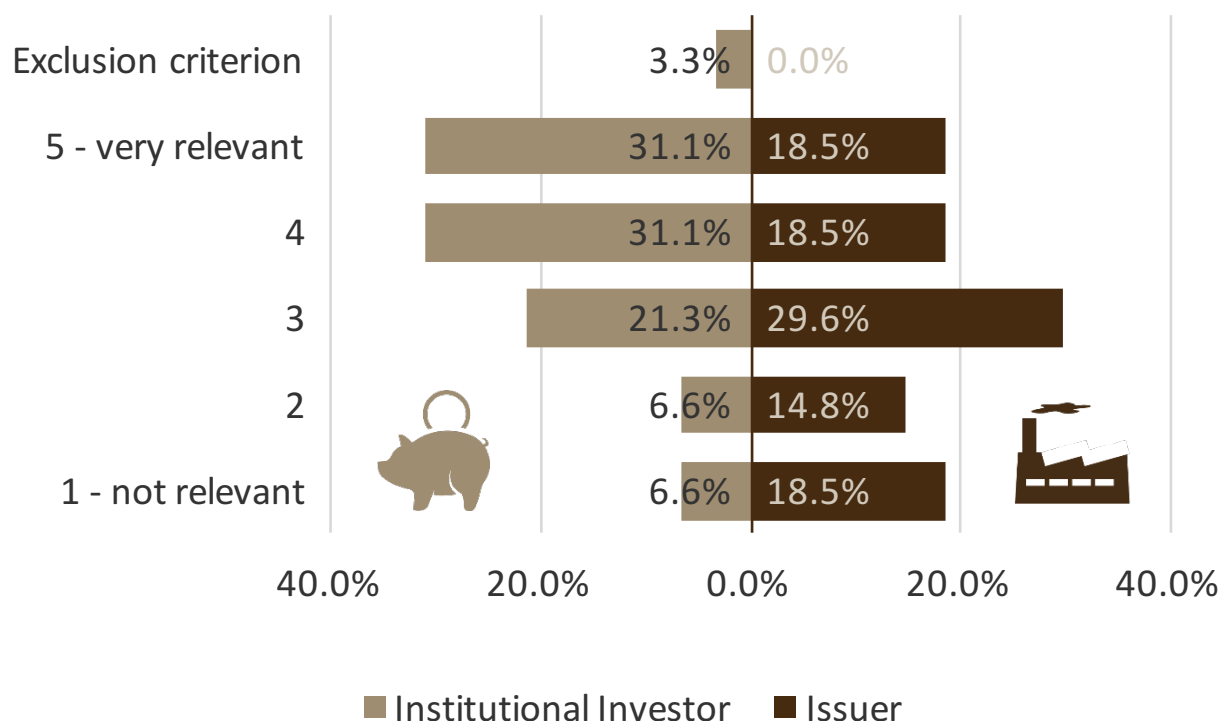
- Close to 70% of issuers seem to believe that ethnic background, gender, or age are important, and basically none think they are unimportant.
- Institutional investors, on the other hand, care relatively little for this issue.

Question: Please indicate the importance of the following factors in determining the fit of a prospective member of the board of directors of a publicly traded Swiss corporation.



# BoD Committee Assignment

How important is the information on committee assignment(s)?



- More than 60% of institutional investors would like to receive information on the planned committee role of a newly elected board member.
- Less than 40% of issuers think this information is relevant.

Question: Prior to the election of a (new) member to the board of directors, the company has the possibility to provide information on the committee assignment of the (new) member



# Implications: Board of Directors

- Increasing responsibility (and accountability) of directors as a result of the Ordinance
- A Board of Directors is a portfolio
- «Busy directors»: Relevant issue in the light of revisions of Articles
- SWIPRA Policy Considerations: Issuers do well to present investors with sufficiently clear information on the value that a proposed board member brings to the company.



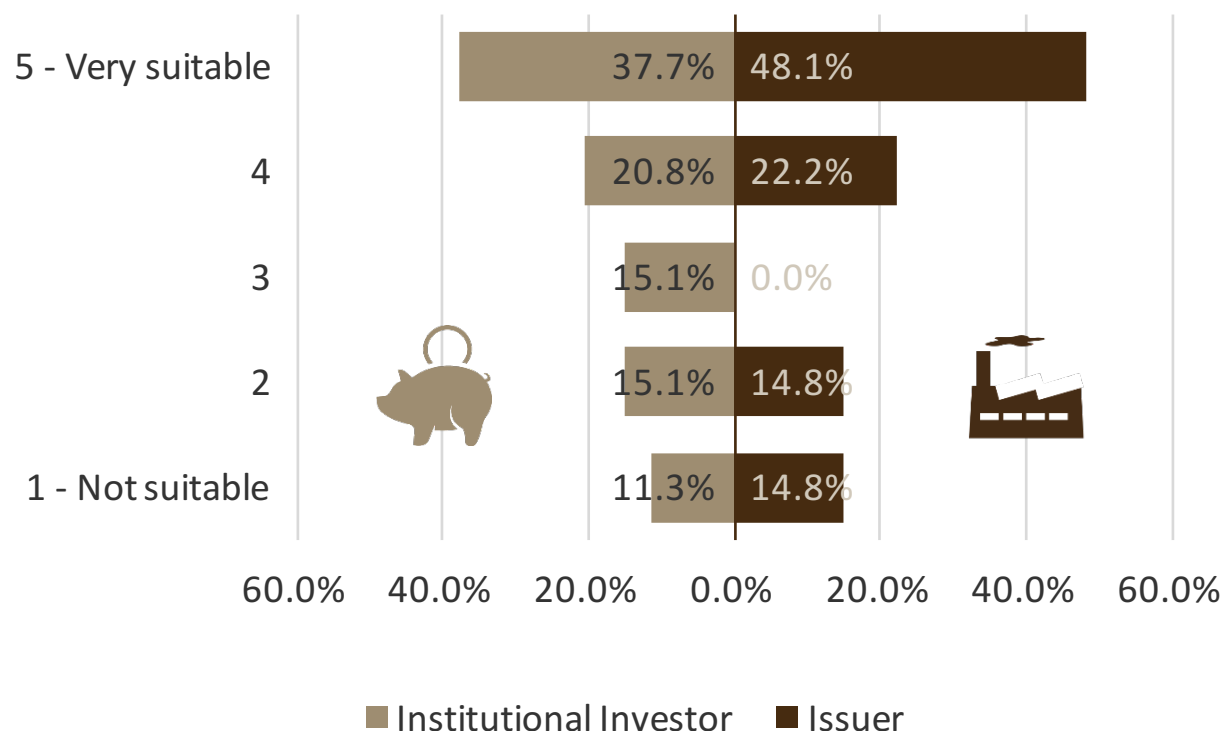
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# Payout methods 1/2

## Payout from capital reserves



➤ (Only) 60% of institutional investors regard paying dividends out of reserves from capital contributions as very appropriate or appropriate.

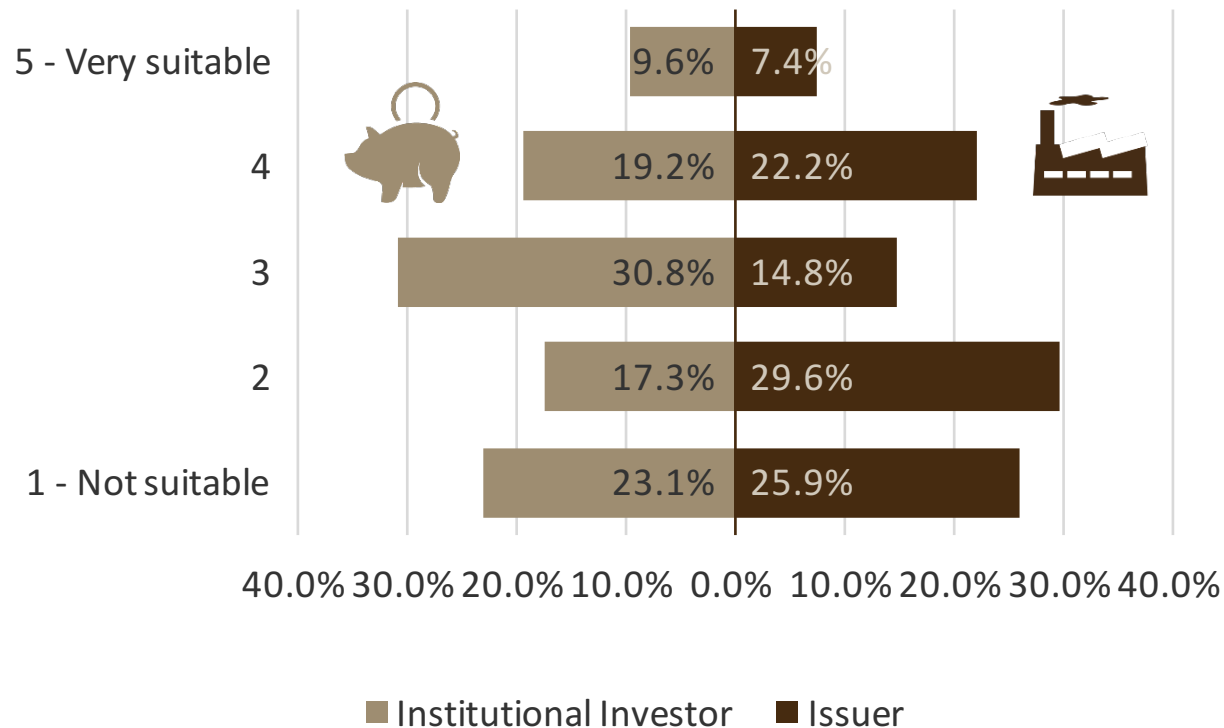
Question: Please indicate the suitability of the following payout methods for your organization as payout receiver / for your company.



# Payout methods 2/2

## Share buybacks

➤ Neither issuers nor investors perceive share buybacks as a particularly suited method of payout



Question: Please indicate the suitability of the following payout methods for your organization as payout receiver / for your company.



# Implications: Payout

- SWIPRA recommends that issuers develop and publish a clear payout policy that makes it transparent what the criteria are according to which payout is chosen.
- It is surprising (in SWIPRA's view) that a large fraction of issuers and investors alike regard share buybacks as not suitable



# Plan for this presentation

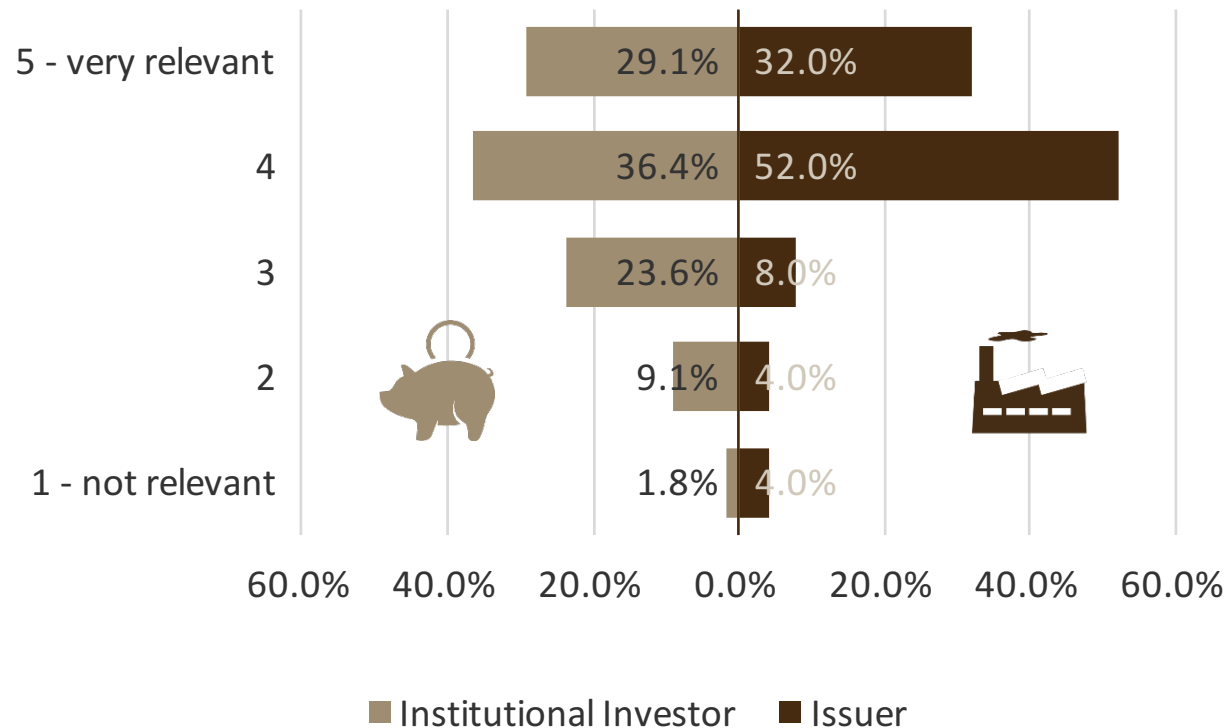
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# Capital increase: Dilution

## Dilution of earnings per share



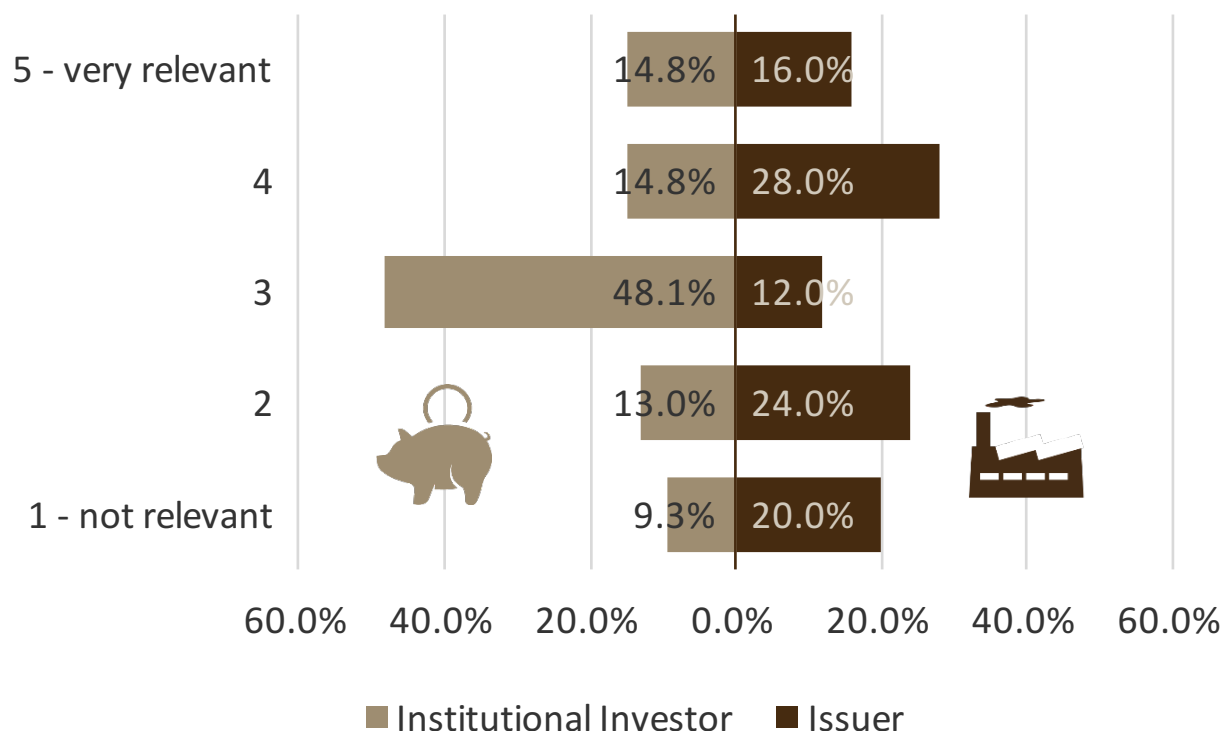
➤ Issuers worry more about dilution of earnings than do institutional investors.

Question: Please indicate the importance of the following items when considering the decision to increase equity capital of a publicly listed company.



# Capital increase: Market timing

High current stock price level due to a recent price appreciation



- Only 12% of issuers have a medium view on market timing – most either think it is (very) important for the decision to issue shares or that it is (very) unimportant.
- For investors, close to 50% are basically indifferent on this question.

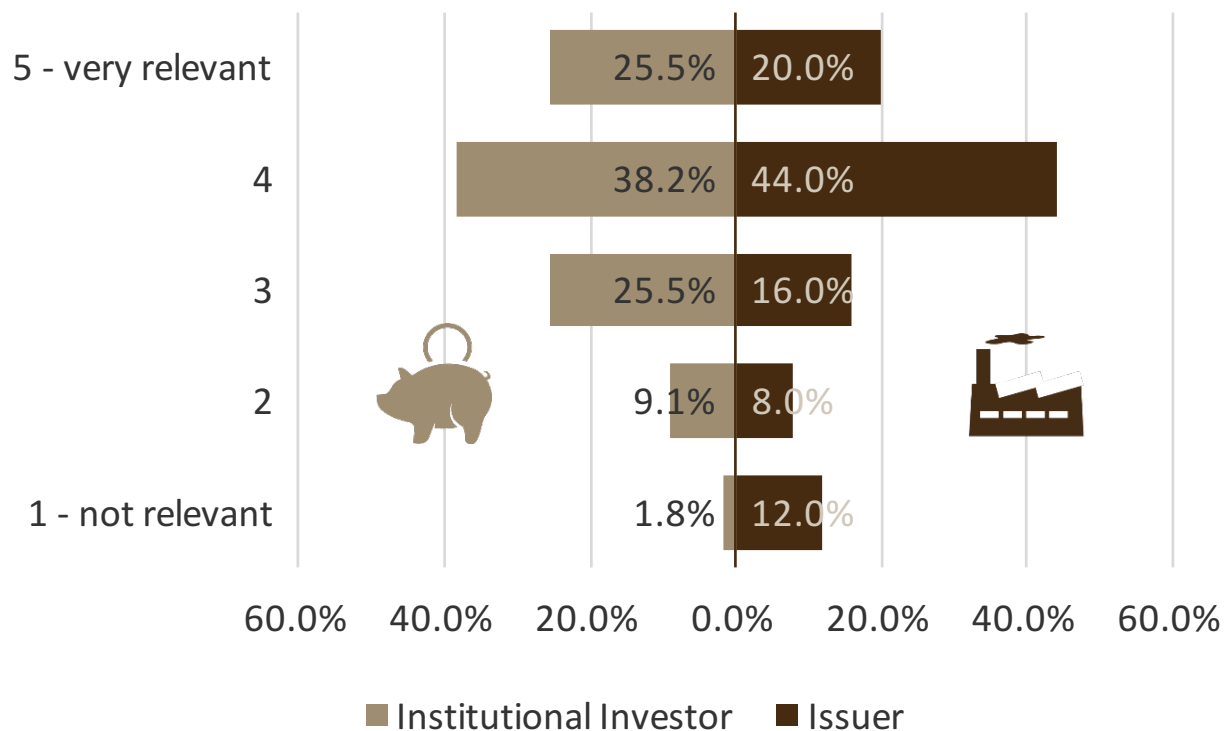
Question: Please indicate the importance of the following items when considering the decision to increase equity capital of a publicly listed company.



# Capital increase: Target capital structure

To sustain a target capital structure

➤ (Only) 65% of companies think that a target capital structure is a relevant or very relevant driver of share issuance decisions.



Question: Please indicate the importance of the following items when considering the decision to increase equity capital of a publicly listed company.



# Implications: Capital structure

- Institutional investors do not appear to have strong views. In fact, they may underestimate the importance of this issue
- The Weighted Average Cost of Capital (WACC) is an essential driver of firm value
- SWIPRA cannot see how not voting on this agenda item can be in the interest of the insured or the investors



# Summary and outlook

- Preferences of Swiss institutional investors and Swiss issuers strongly diverge on a number of topics, while they are more closely aligned on others.
- Striking differences exist in particular in the areas of executive compensation, disclosure, board elections, and payout policy.
- A deeper exchange between investors and issuers as well as a more active engagement by institutional investors are necessary in order to further improve corporate governance in Switzerland.



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# Discussion



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# Closing remarks



# Contact

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