SWIPRA
CORPORATE GOVERNANCE
SERVICES & DIALOGUE

# Newsletter

1/2020

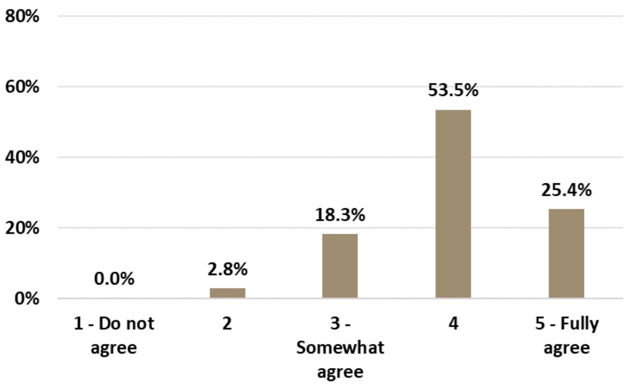
## Outlook Swiss AGM Season 2020

**Zurich, January 30, 2020 - The AGM Season 2020 will see more shareholder scrutiny on the actual tangible actions companies are taking in the field of their corporate social responsibility (or "ESG"), a higher exposure of individual board members, in particular board and committee chairs, and more focus on internal fair pay. Board and pay votes will remain the most critical AGM items. Solid governance frameworks remain a success factor not only for established listed companies but also likewise for companies planning their IPO. These are some of the trends SWIPRA expects to see in the 2020 AGM season.**

### CSR integration must become tangible

Much has been said and written about Corporate Social Responsibility ("CSR"). This is, in simple terms, *how* a company runs and manages its business to become and stay successful in the long-term. Yet little of what is done in practice is truly tangible for outside observers. SWIPRA believes that the discussion has reached a point, where lip service to CSR principles is no longer sufficient. *Going forward, boards have to ensure that CSR integration becomes tangible for outside observers. This requires companies to disclose and communicate actively how CSR is reflected in their strategy, their risk/opportunity assessment and, consequently, their decision-making processes and incentive structures*.

***Figure 1:*** *CSR targets are necessary to guide individual behavior towards long-term sustainability and should be included in compensation systems (Sample: Institutional investors worldwide, Source: SWIPRA Corporate Governance Survey 2019)*




The foundation for this integration is a clear understanding of a company's role in society, along with the generation of economic value, and the identification of each company's key stakeholders and their expectations. In support of this, 79% of the institutional investors that participated in the 7th SWIPRA Corporate Governance Survey 2019 agreed that it was a necessity to include CSR targets in compensation systems to guide individual behavior towards long-term sustainability (see Figure 1). Moreover, regulatory developments in and around Switzerland already go into this direction:

1. The Shareholder Rights Directive II in the European Union and the update of the UK Stewardship Code, both guiding the behaviors of some of the largest investors in the Swiss equity market, call for a more

### Upcoming Events

**Institutional Investor Survey 2020**
Morrow Sodali event
February 18, 2020

**SWIPRA Analysis AGM Season 2020**
Publication
June 2020

**SWIPRA Corporate Governance Survey**
Presentation key findings
Early November 2020

**Swiss Corporate Governance Dialogue**
Event for issuers/investors
Late November 2020

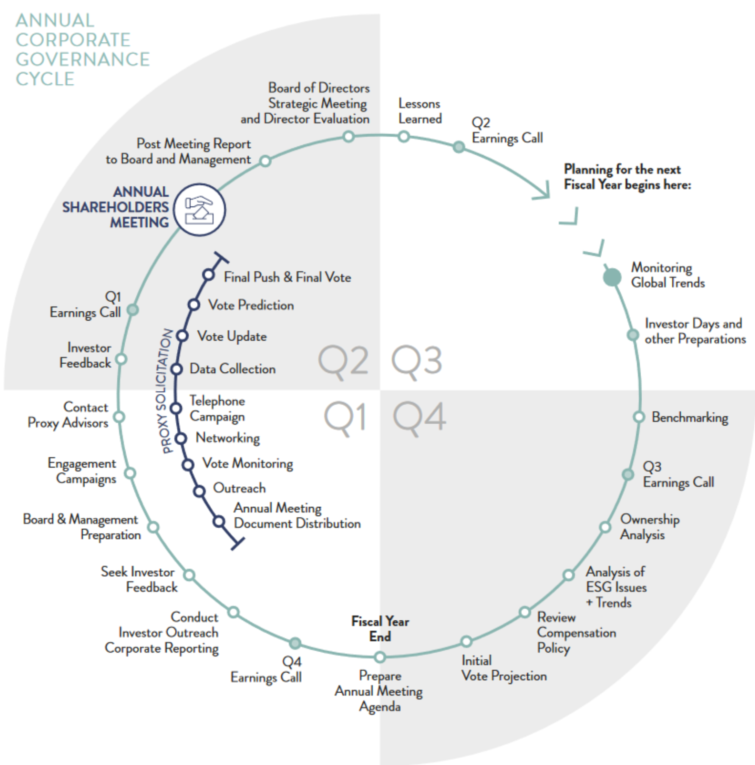
comprehensive disclosure of institutional investors' stewardship activities and, in particular, the outcomes of these efforts. SWIPRA expects that this additional disclosure will lead asset owners to increasingly focus on the actual *outcomes* of stewardship activities, such as actual changes in companies' governance structures and disclosure, rather than just the engagements activities themselves. On the other hand, mere exclusions of specific industries or companies in an asset manager's portfolio will no longer be sufficient to fulfill the requirements concerning the duty of care and the fiduciary duty of an asset or pension fund manager.

2. Political developments in and around Switzerland, amongst which the Swiss responsible business initiative is clearly the most far-reaching one, are calling for action by the regulators to hold companies accountable for their behavior. Becoming increasingly wary of the limited outcomes of the market's aspired self-regulation, tangible progress in terms of CSR frameworks, CSR disclosure and, most importantly, clarifying CSR responsibilities of the board are key to safeguard the important unique approaches of the individual companies and stay ahead of uniform regulations.

**Governance Engagement Cycle: Requiring not only the right processes, but also the right people**

To ensure internal Corporate Governance and CSR efforts, and clearly there are many in place already, become more tangible to investors and other stakeholders, an ongoing interaction beyond the annual general meeting and through various channels of communication has become vital. A blueprint for how such a process could be organized during the year is provided in Figure 2 by SWIPRA's international partner Morrow Sodali. A key requirement for companies to be successful in these efforts is a board of directors that is willing and committed to enter into and

***Figure 2:*** *Annual corporate governance cycle (Source: Morrow Sodali 2019)*



maintain a direct dialogue with its stakeholders. The board should further ensure that all other channels of communication within the company, including and foremost the company's employees, are aligned with these efforts. So far, the focus in this dialogue was mainly on the chair of the board, who is held accountable for the board's overall organization, including its view towards CSR. This external exposure becomes increasingly relevant for the chairs of the audit and the compensation committees. The former to explain how the CSR framework is organized and controlled, including how non-financial key processes are established and assessed, and the latter to elaborate on how incentives are aligned with the company's CSR efforts towards a sustainable business aligned with stakeholder priorities.

*It is, therefore, not only crucial for companies to set up such an annual corporate governance cycle structurally, but the board also needs to ensure that board committee chairs have the capabilities and skills to participate in a direct exchange with stakeholders in form of governance engagements or potentially public relations activities.*

## Stewardship Priorities / Guidelines

BlackRock Inc.

State Street Global Advisors

Vanguard Group

Legal & General Group

Norges Bank Investment Management

UBS Global Asset Management

Ethos Services (German)

**Benchmark compensation - Internally**

A point in case of a tangible stakeholder approach relevant for all companies is employees. Additional disclosure requirements regarding workforce diversity or various pay gaps were implemented in key capital markets providing additional data to analyze this particular stakeholder group.

## ISS Updates 2020

### Guidelines Europe 2020

**Diversity:** Recommend against the re-election of the chair of the nomination committee if no female director is proposed in the board election.

**Responsiveness to shareholders:** If the board does not respond adequately to significant shareholder dissent, recommend to vote against the chair of the compensation committee or, in consecutive cases, against on the chair of the board.

**Discretion on pay decisions:** Compensation committees are encouraged to use and explain their discretion in pay decisions to ensure performance, in particular related to ESG, is rewarded properly.

Besides the lasting discussion regarding pay-for-performance and strategic alignment of financial and non-financial incentive schemes, this has jumpstarted a broad discussion about internal fairness and distributional aspects of corporate compensation systems. One effect of this discussion is an increased focus on the development of compensation levels across different ranks within companies, predominantly between the executive committee and the average employee. Despite the sparse availability of such data in Switzerland, SWIPRA believes that this topic will become important for Swiss boards, spilling over from key capital markets through the largest non-Swiss asset managers invested in Switzerland.

*Consequently, it will no longer be sufficient for companies to benchmark management compensation with comparable functions in peer companies only, but that benchmarking of compensation level developments within the company is increasingly essential.*

## IPO-Companies – Be aware of sound governance

Investors' stewardship efforts towards creating sound corporate governance frameworks in investee companies have long focused almost exclusively on the largest listed

## Glass Lewis Update 2020

Guidelines Switzerland 2020

**Reassessment of chairperson independence:** Seemingly full-time mandates are now considered non-independent.

**Lead independent director (LID):** When board chairs are considered non-independent (see above), the board is expected to designate a LID.

**Board diversity and skills:** Reporting should include a meaningful and traceable assessment of the board's diversity and skill profile.

**Compensation report:** Expect companies to increasingly disclose compensation to executive committee members individually.

companies. Moreover, since IPO companies are predominantly controlled by large founding shareholders, dealing with corporate governance topics is often postponed to an undefined future period.

This is about to change. Several recent international IPOs, such as Saudi Aramco, WeWork or Uber had to accept lower valuations (or were even cancelled) as a consequence of presumably weak governance structures and, therefore, low investors' trust and confidence. In addition, investment banks are starting to increase the bar on minimum governance structures. Recent example is Goldman Sachs that announced to no longer take companies public with no woman on the board. And ISS has announced in its most recent policy update that it will be very strict in its board election recommendations of IPO companies with multi-class share structures or insufficient reflection of shareholder rights in the bylaws or company charters.

*Consequently, corporate governance should no longer be seen as a burden by IPO companies, but rather as a chance to act actively, make a difference and create a framework that fits the individual character of the company, while building trust with existing and prospective stakeholders.*

Having a sound and trustworthy governance framework will generally benefit a company in its post-IPO period and allow the board and executive management to focus on important strategic and key operational tasks. SWIPRA is convinced that the process of developing a sound corporate governance framework pre-IPO will help navigating through the complex IPO process more smoothly, creating shareholder confidence and preventing stakeholder activism in the post-IPO phase.

## Select SWIPRA Publications

SWIPRA Corporate Governance Survey 2019

SWIPRA AGM Analysis 2019

Audit und CSR (in Expert Focus, German)

## About SWIPRA Services

SWIPRA Services provides corporate governance services for companies and their boards of directors as well as for institutional investors. We work with our clients with the aim of increasing the value of the company in the long term, based on principles of value-based management and empirically relevant criteria. SWIPRA Services is exclusive partner of Morrow Sodali in Switzerland. www.swipra.ch

SWIPRA works with a high-profile think tank to further develop corporate governance in Switzerland: Members

**Contact**

Barbara Heller, Managing Partner
SWIPRA Services AG, T: +41 (0) 55 242 60 00, E: barbara.heller@swipra.ch