**Press Release**

# 5th SWIPRA survey on the development of corporate governance in Switzerland

## The course is set prior to the AGM: the growing importance of governance activism

**Zurich, 8 November, 2017 – The decisive interaction between shareholders and issuers increasingly takes place throughout the year in so-called engagement discussions rather than at the general shareholder meetings. These engagements generally involve members of the board of directors and are requested predominantly by international institutional shareholders. Engagement discussions decisively influence issuers' governance structures and are increasingly indispensable for companies to counter the standardized views of some market participants, in particular proxy advisors. This empirical finding is one of the key results of the SWIPRA Corporate Governance Survey 2017. Investors continue to criticize the disclosure of performance-related compensation in this year's survey and are, contrary to previous years' views, increasingly willing to express their discontent in binding votes on compensation amounts. Moreover, investors perceive the disclosure on corporate social responsibility of Swiss issuers credible, though they are looking for better transparency regarding the responsibilities of the board of directors in this field.**

### Governance activism to counter "tick the box" assessments

In 2017, approximately half of the surveyed issuers increased the interaction with their investors on corporate governance topics. This growth was mainly driven by requests from international investors. Institutional investors use these discussions to clarify open issues regarding annual general meetings, to better understand the individual situation of the company or to directly influence the governance structure of the company. Engagements are an important component of governance activism, which is, contrary to the classical form of activism, a more long-term kind of shareholder intervention, primarily aiming at changes in the governance structure of an issuer rather than at enforcing strategic changes. This is apparently successful: two thirds of the issuers in the survey stated that they have amended their governance structure following such engagements. In comparison, only 41.9% of the issuers stated that they have altered their governance structure as a result of low AGM approval rates. The additional effort is worthwhile for issuers: they can elaborate their individual situation instead of being assessed according to "tick the box"-approaches of certain proxy advisors. However, if no engagements take place, a majority of investors (60.7%) seems to rely mainly on the analyses of proxy advisors rather than on the information provided by issuers when deciding on how to vote.

### No fear of binding compensation votes

So far, investors had a rather skeptical view on the binding votes on compensation amounts, the impact of a possible rejection seemed too uncertain and the advisory votes on the compensation report had already been well established. This view has changed: 82.6% of the investors perceive a binding vote on compensation amounts as their most important instrument to voice criticism on compensation-related topics. Concurrently, only a quarter of the investors and a third for the issuers perceive the impact of a rejected, retrospective binding vote on compensation amounts as truly substantial on a company's valuation. Hence, it seems that investors expect the long-term benefit of the "right" compensation system to outweigh the possible cost of a rejected management compensation. Issuers, on the other hand, seem to expect the compensation-related long-term incentives to be sufficiently high to retain management even in case of rejected compensation amounts.

**Continued discontent with the disclosure of performance-related compensation**

About half of the survey participants, investors and issuers alike, stated that the general compensation-related disclosure quality had increased compared to the previous year, while the satisfaction with the specific pay for performance disclosure remained low: 42.9% of the Swiss institutional investors and 35.3% of the foreign investors perceive the disclosure regarding “pay for performance” as inadequate. Overall, only 3.6% of the investors (2.4% in the previous year) were explicitly satisfied. This continued dissatisfaction is arguably reflected in the increasing and, relative to the US and the UK, considerably higher fraction of against votes on compensation reports at Swiss AGMs (c.f. SWIPRA AGM Analysis 2017). A possible explanation for this shareholder discontent may be the selection of performance indicators. Many issuers base their performance-linked compensation on “adjusted” (non-GAAP) indicators. These performance measures, adjusted by extraordinary, non-recurring events are generally not audited by the external auditor and are rarely substantiated in a consistent and transparent manner. Such performance measures may deviate significantly from financial results based on the applied accounting standards and, therefore, may have divergent consequences for shareholders and management. As a consequence, only 30% of the investors believe that such adjusted performance measures are a suitable basis to determine performance-based compensation, which substantially contrasts the view of two thirds of the issuers that consider these adjustments appropriate, a pattern already observed in previous SWIPRA surveys. Going forward, it may well be possible that this wide-spread discontent could be reflected in binding votes on compensation amounts or in elections to the compensation committee.

**The question of accountability in corporate social responsibility matters**

75% of the investors considered the disclosure on corporate social responsibility (CSR) of Swiss issuers as credible and perceive the extent of the published quantitative information regarding CSR as adequate. Therefore, further regulatory requirements in this regard should be questioned critically. The perception of who is accountable for CSR is, however, less clear. Only 12.2% of the investors share the opinion that the accountability regarding CSR is transparently disclosed and over 50% of the investors wish the boards of directors to engage more with specific CSR stakeholder groups. Such engagements are, however, only supported by 32.3% of the issuers. Furthermore, investors increasingly perceive that it is, mainly the board of directors’ obligation to ensure compliance with ecological and social minimum standards, particularly in developing countries. Barbara Heller, Managing Partner SWIPRA Services: «In particular in light of the overall discussion in this field as well as the political developments in Switzerland related to the “responsible business initiative” it seems somewhat surprising that issuers, particularly their board of directors, are missing awareness regarding these points of view, and have not sufficiently improved and clarified their communication on the internal processes and accountability regarding CSR.”

**One share, one vote: critical view on lead index composition**

The topic one share, one vote is particularly important for large, passively invested institutional investors. A passive investment strategy considerably limits a specific stock selection and, thus, inevitably forces these shareholders, depending on the benchmark index, to invest also in companies with dual-class share structures that restrict voting power. A possibility to address this issue may be to include only companies into relevant equity indices that adhere to the one share one vote principle or that have the majority of their voting rights in the free float. This view, which had been brought forward by SWIPRA several times over the past years, was largely received skeptically in last year's survey, but is meanwhile supported by over 62% of the investors and 75% of the issuers in this year's survey.

**Additional results**

The SWIPRA Corporate Governance Survey 2017 further revealed that investors and issuers assign great value to diversity on the board of directors (as defined by various criteria) and continue to be critical regarding additional regulation on certain minimum quotas. Furthermore, investors view the additional information provided by the so-called "key audit matters" in the report of the external auditor clearly positively. International investors would even welcome an extension of the external audit into non-financial areas, such as CSR, as well as non-GAAP information.

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A summary of the study's results can be downloaded using the following link: http://swipra.ch/en/survey/. Figures and data can be requested at presse@swipra.ch.

**The SWIPRA Corporate Governance Survey**

In collaboration with a team of researchers from the Department of Banking and Finance at the University of Zurich, all issuers of the Swiss Performance Index SPI® as well as national and international institutional investors were invited to participate in the fifth SWIPRA Survey on Corporate Governance in Switzerland. During the survey period (August/September 2017) 83 issuers listed on the SIX Swiss Exchange, representing approximately 80% of the market capitalization of the Swiss Performance Index®, and 65 institutional investors, representing approximately 20% of the worldwide assets under management, participated in the survey. The participating institutional investors belong to the largest investors worldwide and hold substantial investments in Swiss companies, approximately one third of them non-Swiss.

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**About SWIPRA**

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

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