

### Outlook Swiss AGM Season 2021

Do things right and talk about it – non-financial reporting in the spotlight

Zurich, January 29, 2021 - Dealing with challenging developments in the economic, political and regulatory environment is increasingly challenging for decision-makers. Boards of directors and executive managements are the guardians of the reputation of a company. Their business conduct, corporate governance, ethical and socially responsible behavior (Corporate Social Responsibility "CSR" or Ecological, Social, Governance "ESG" issues) are increasingly in the focus of stakeholders. Ultimately, they are decisive for the success of a company. But how to communicate effectively with the various stakeholder groups? Concrete action and the willingness of companies to increase transparency and dialog on ESG are expected. But stakeholders have to enter this dialog and make an effort to understand the individual situation of a company. Although there are countless reporting standards, initiatives and ratings out there, there is no common denominator yet as to what non-financial reporting should ideally look like, though views are starting to converge. The critical issue remaining is that non-financial information often cannot be forced into an overly tight corset of standards. The upcoming obligation for companies listed in Switzerland to submit a non-financial report to a shareholder vote illustrates the relevance of this type of information and the urgency to improve or develop such reporting.

SWIPRA expects that the upcoming AGM decisions concerning the crisis year 2020 will focus on the balance between business strategies and financial

#### Upcoming Events

##### Institutional Investor Survey

Webinar with Morrow Sodali, 4 March 2021

##### SWIPRA Analyse GV Saison 2021

Publication, June 2021

##### 4. Swiss Corporate Governance Dialog

For Corporates and Investors

2. September 2021 (new date)

success on the one hand and social responsibility in dealing with the environment, society, employees, suppliers, and customers on the other. Consequently, this requires a more comprehensive dialog on the wide-ranging responsibilities of the boards of directors than in the past with an increased focus on human resources strategies and compensation issues, financing strategies and payout policies. This dialog provides a good opportunity for building and further developing a meaningful and targeted reporting.

#### Non-financial reporting as a reputation factor

Swiss companies will be accountable for their [reporting on non-financial aspects](#) and, in some cases, have to conduct a due diligence along their supply chain (see [SWIPRA Webcast](#)). Shareholders will have the right to vote on the non-financial report at the AGM. Ideally, the new dimension of this annual mandatory reporting complements the still backward-looking perspective of financial reporting, with an increased transparency on opportunities and risks of the business model and the way it is managed. This is ultimately critical to the long-term success of a company. Therefore, regardless of how the design of this reporting is ultimately defined by law or policy, it must not be seen as a compliance exercise. Rather, this type of reporting provides a significant opportunity: it should highlight the specific efforts of the board of directors, management and the company as a whole in the area of socially responsible actions along the value chain and point out its relevance



## Proxy Advisor Updates 2021

### Glass Lewis

[Guidelines Switzerland 2021](#)

[European Guidelines 2021](#)

[Guidelines Shareholder Proposals 2021](#)

### ISS

[EMEA Guidelines 2021](#)

[Management-Compensation und Covid-19](#)

[Socially Responsible Investment Guidelines](#)

### Ethos

[Guidelines 2021](#)

to a company's value generation as well as its contribution to social welfare. This offers a big opportunity to build trust and positively influence the company's reputation. However, time is short: The first AGM votes on non-financial reporting are expected as early as 2023. Since non-financial factors are very company-specific, the focus cannot be on a "best practice"-solution. Instead, active management decisions are needed to determine the materiality factors of a company. According to the [SWIPRA Corporate Governance Survey 2020](#), investors clearly expect such leadership from the Board of Directors. At the same time, there needs to be a certain degree of agreement in the market as to how these decisions and their impact on non-financial factors should be presented. By joining the Task Force on Climate-related Financial Disclosures (TCFD), an initiative to develop a disclosure framework related to climate risks and opportunities in the business model, the Swiss Federal Council is already taking a position in this matter.

### Sharpening mutual understanding on ESG.

Given the time constraint, it is important to use the discussions in the current 2021 AGM season to gather feedback and proactively shape future reporting. The majority of the AGM focus topics (see below) are directly related to ESG aspects. The handling of the Covid-19 pandemic and its long-term effects, as well as

the role of decision-makers in politics and business, have been in the public eye for some time. However, the situation has also accelerated the discussion on many specific ESG topics and brought them into the focus of investors. One can speak of a rapid and significant "public to private - spillover". Shareholders will demand greater transparency in dealing with these issues at AGMs and in bilateral discussions with the BoD prior to AGMs ("engagements").

The world's largest asset manager, BlackRock, and other institutional investors that have added far-reaching environmental and social issues to their voting guidelines this year. For ISS and Glass Lewis, the world's most influential proxy advisors, non-financial issues are also a focus of their proxy voting guideline updates this year. However, they too are not yet clear on how exactly to implement their requirements on a corporate organization and disclosure. What can be observed, however, is a greater willingness on the part of institutional investors and proxy advisors to support coordinated shareholder resolutions on environmental and social issues at AGMs and in engagements. This trend was clearly demonstrated in the [SWIPRA Corporate Governance Survey 2020](#). Even though shareholder proposals have been rare in the past, especially on non-financial topics, it is important to keep an eye on this trend. On the one hand, the new corporate law in Switzerland is sharply lowering the threshold for shareholder proposals at many Swiss companies. On the other hand, the activity of investor-backed initiatives and organizations on certain ESG topics is increasing significantly. For example, the Climate Action 100+ initiative, which currently has 545 investors with USD 54 trillion in assets under management, filed 11 shareholder proposals on environmental topics in the European market in 2020.

The following key topics are expected to be addressed in the 2021 AGM season:



## Personal responsibility in addressing environmental and social issues.

The Corona crisis affects everyone. Shareholders want to hear specifically from the Board at the AGM 2021 what priorities have been set and what measures were taken to respond to this situation. At the same time, they are interested in how companies are being led out of the crisis and what strategic priorities have been set for the future in connection with socially responsible issues. The [SWIPRA's 2020 survey](#) confirmed that these questions, especially on environmental and social issues, will be a strong focus in engagement discussions. Clear leadership and transparency on the way it works are required from the Board. If questions remain unanswered, this will increasingly have a negative impact on Board elections.

## Diversity - No time for transition periods

Boards of directors of companies listed in Switzerland are amongst the most diverse ones worldwide in terms of nationalities represented. In terms of gender distribution, the diversity level in Switzerland lags behind its European peers despite an increasing fraction of women being appointed. However, the legal requirement of at least 30% representation per gender will not become binding for several years. For many investors, this is taking too long. Proxy advisors ISS and Glass Lewis have already set a minimum representation of 30% per gender in their 2021 voting guidelines. If this diversity level cannot be achieved immediately,

transparent disclosure on ongoing efforts and specific goals to promote diversity is already expected, even without regulation. If such information is missing, dissenting votes must be expected for the members of the board committees responsible for nominations and succession planning.

### Stewardship Priorities / Guidelines

[BlackRock Inc. Guidelines 2021](#)

[State Street Global Advisors Guidance 2021](#)

[Vanguard Group Guidelines 2021](#)

[Norges Bank Investment Management Corporate Sustainability Reporting Expectations](#)

[Schroders ESG Policy 2021](#)

[Swisscanto Sustainability Proxy Voting Guidelines](#)

## Discretionary decisions, a tightrope act

Decisions deviating from the regular compensation system due to the effects of the Covid-19 crisis in 2020 are in the focus among shareholders and proxy advisors. Acceptance of such decisions tends to increase, particularly if they are used to ensure a balanced compensation within the company in such exceptional situations. For 2020, this means specifically whether discretionary upward adjustments in the bonus are justified due to Covid-19, or whether discretionary adjustments downwards are not needed for the long-term plans, as the number of equity instruments in these plans has often risen sharply due to the short-term stock market slump at the time of allocation by mid-2020. It is generally expected that such discretionary adjustments are made in the context of corporate strategy, compensation structures in the company overall, and corporate culture. The stakeholder perspective plays an important role in this. Absent related explanations, the negative impact usually goes beyond compensation votes and elections to the compensation committee. This will have a direct impact on the reputation of the board and the credibility

### Swiss Regulatory Developments

**Indirect counterproposal to the responsible business initiative**

[SWIPRA Webcast](#)  
[Legal text \(German\)](#)

**Regulatory Developments in Switzerland**  
[SWIPRA Newsletter \(July 2020\)](#)

**Task Force on Climate-related Financial Disclosures**  
[Switzerland supports TCFD](#)



of the strategy, especially with regard to CSR and a functioning governance.

### **Non-financial performance targets - The search for materiality factors.**

It will be more important than ever to show the role of the compensation system in influencing behavior and corporate culture to successfully execute strategy. Compensation incentives therefore have to be based on more than just financial metrics. Investors and proxy advisors, but also employees, increasingly expect that non-financial aspects, which can have a positive or also negative impact on the company's long-term value, are recognized and taken into account in the compensation systems and performance indicators. However, non-financial materiality factors are very company-specific. As a consequence, a "best practice" orientation is not sufficient, but the individual case must be presented and discussed transparently.

### **Virtual, but not like last year**

In the 2020 AGM season, the goal was to maintain business as usual in the AGMs as much as possible, despite Covid-19. Interaction with shareholders often fell victim to the virus and lock-downs. For 2021, depending on the situation, most AGMs will still be held virtually, or at best hybrid. However, shareholders' expectations of these formats have increased

significantly compared to last year. It is expected that shareholder questions will be possible in any case this year, live or time-delayed, and that information on the process and participation in virtual AGMs, including how questions are answered, will be communicated transparently.

### **SWIPRA Publications**

[SWIPRA Corporate Governance Survey 2020](#)

[SWIPRA Newsletter on Covid-19](#)

[SWIPRA AGM Analysis 2020](#)

### **About SWIPRA Services**

SWIPRA Services provides **services related to corporate governance and corporate social responsibility** for companies and their boards of directors as well as for institutional investors in responsible investing. We work with our clients with the goal of long term value-creation, based on principles of value-based management and empirically relevant criteria. [www.swipra.ch/](http://www.swipra.ch/)

SWIPRA Services is working with a high-profile **think tank** to further develop corporate governance and CSR in Switzerland: **Members**

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#### **Contact**

Barbara A. Heller, Managing Partner, T: +41 (0) 55 242 60 00, E: [barbara.heller@swipra.ch](mailto:barbara.heller@swipra.ch)