

Webinar “Responsible Business Initiative”

Consequences of the outcome from the November 29 Swiss public vote

Zürich, December 1, 2020



Program

Exclusive Swiss partner of

M O R R O W
S O D A L I

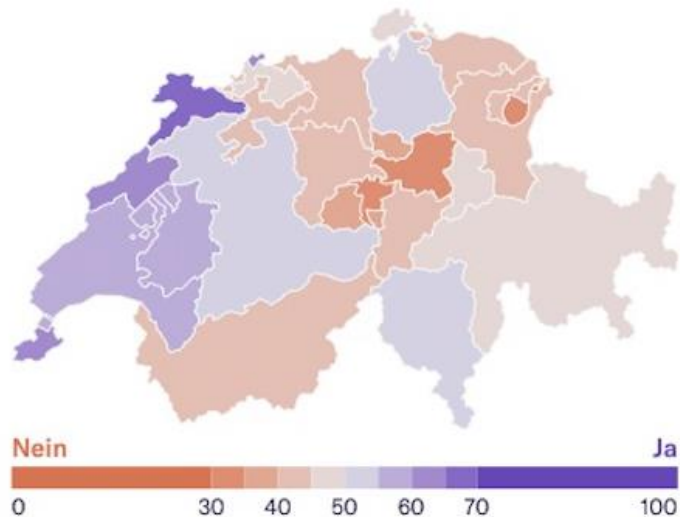
Welcome, consequences of the vote and the regulatory path forward Barbara A. Heller, Managing Partner, SWIPRA Services	17:00
Discussion of scenarios for companies and impacts for their stakeholders Dr. Markus Neuhaus, member of various Boards of Directors	17.15
Interactive Q&A with webinar participants	17.35
End of webinar	18.00

Consequences of the voting result and the regulatory path forward

Barbara A. Heller
Managing Partner, SWIPRA Services



Public vote November 29, 2020 – results



- The Responsible Business Initiative “RBI” was accepted by 50.7% of the voters
- However, it was rejected by a majority of the cantons (17.5 against 8.5)
- A public constitutional initiative in Switzerland requires both majorities
- As a consequence, the initiative was rejected, and the parliamentary “indirect counterproposal” was “automatically” adopted.



Learnings and consequences of the result

- The voting result shows a 50/50 split in perception of how companies are conducting their businesses and implies a lack of understanding regarding corporate social responsibility in the public.
- An increased level of disclosure regarding CSR-related topics has been requested for the past years by many professional investors. This has been shown, among others, in the yearly SWIPRA Corporate Governance surveys.
- Legislation becomes effective following a 100 days referendum deadline and additional clarifications regarding implementation by the federal council – effective date likely not before FY 2022.
- Independently from the regulatory path and new legislative requirements, companies are now encouraged to “walk the talk” and (voluntarily) improve their disclosure as well as their communication strategies regarding corporate governance, CSR and incentives and strengthen their public to private dialogue regarding responsible business conduct.



New legislation part of Swiss Code of Obligations (corporate law) and Criminal Code

Non-financial reporting duties

- Public Interest Companies* “PIE’s” are required to disclose certain non-financial information on environmental (incl. CO₂ targets), social and employee matters, how they respect human rights and anti-corruption matters, similarly stipulated by the EU Directive on non-financial reporting;
- Non-financial reporting should include a description of
 - the business model,
 - the relevant policies in the respective fields, including the conducted due diligence,
 - the measures taken in implementing these policies, including an assessment of their effectiveness,
 - the key performance indicators in the respective fields.
- The report extends to subsidiaries and controlled entities worldwide;
- The report will have to be signed and approved by the highest management or administrative body; an audit is not required;
- Shareholders will have to approve the report at the AGM.

* In the context of the new legislation: publicly listed companies and large financial institutions including their subsidiaries abroad: thresholds: >500 FTE and balance sheet of min. CHF 20m or turnover of min. CHF 40m.



New legislation part of Swiss Code of Obligations (corporate law) and Criminal Code

Due Diligence and Transparency Duties

- Specific due diligence and reporting obligation for minerals and metals from conflict areas and prevention of child labor (this due diligence will be subject to third party review)
- If not yet in place, a compliance management system must be established along the global supply chain.

Some clarifications required going forward...

- Scope and nature of disclosure
- Approval of report at AGM
- Level of diligence and independent assurance in certain areas and businesses
- Requirements regarding compliance management systems
- ...



Contact information

Exclusive Swiss partner of

M O R R O W
S O D A L I

SWIPRA Services Ltd

Barbara A. Heller, Managing Partner

Claridenstrasse 22

CH – 8002 Zurich

Phone +41 55 242 60 00

Barbara.heller@swipra.ch

www.swipra.ch



SWIPRA Services & Morrow Sodali

Center of Competence in Corporate Governance

Exclusive Swiss partner of

M O R R O W
S O D A L I



Board Assessment & Advice

- **Board Assessment:** A comprehensive and tailored assessment of your board of directors including a 360° review to improve the effectiveness of your board and your governance framework and to help you to better understand the dynamics and decision-making processes of your board
- **Board Training & Advice:** We provide individually tailored advice and trainings on topics such as strategic CSR integration, board and committee composition and renewal, activist situations, etc.



CSR & Governance Services

- **Governance Structures & Disclosure:** Our strategic advice supports the board of directors and its teams in actively shaping their governance framework with a view towards long-term value creation.
- **Corporate Social Responsibility:** It is our firm believe that CSR is not a new concept, but an integral part of strategy and a well functioning corporate governance framework.
- **Incentives & Compensation:** We help you aligning intended and actual incentives and support you in designing your compensation framework to steer efforts towards strategic financial and non-financial (CSR) targets.



AGM & Engagement Services

- **Dialogue & Engagement:** We support you in your regular dialogue with your key internal and external stakeholders on corporate governance, CSR and incentives, to shape this powerful complementary tool and integrate it in your strategic communication activities to build trust, increase reputation and support you in your preparations of general meetings.



Governance Think Tank

- Our think tank is composed of members from the corporate and investor community and brings together practical insights with current international academic research in the field of corporate governance.
- We participate in the public discussion through position papers, opinions, surveys and newsletters.



Annex

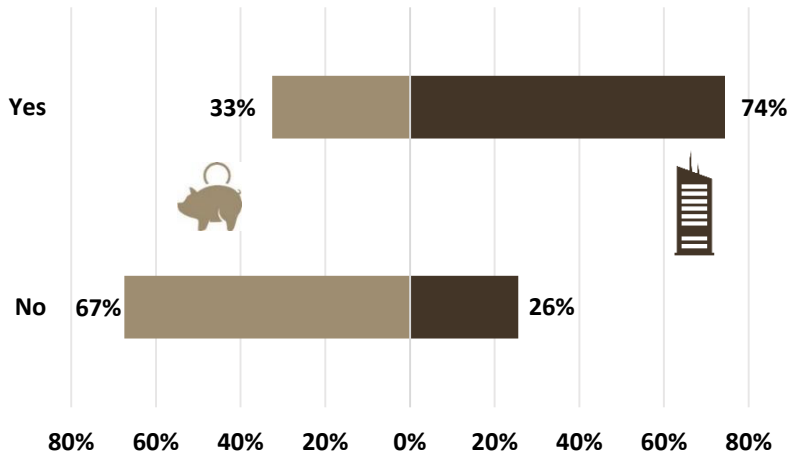
CSR data from SWIPRA Corporate Governance Surveys



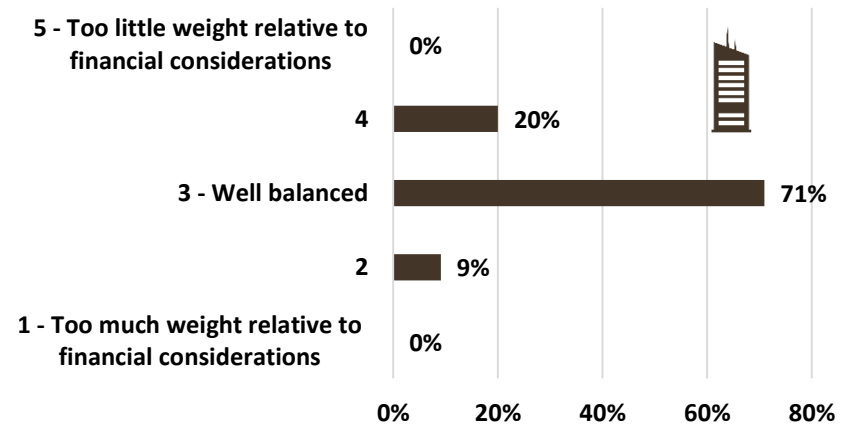
Board of Directors - More leadership and dialogue required

CSR strategy leadership

Sufficient Board leadership in CSR integration Survey 2020



Weight of CSR in the boardroom Survey 2020



- 75% of shareholders consider entire Board to be responsible for CSR strategy, but only 25% understand from disclosure who is taking this role within companies
- Majority of shareholders (67%) looking for more prominent role of Board in CSR integration
 - In 2019, only 22% of the investors considered Board leadership insufficient
- One out of five companies believe that CSR should get more weight in the Board’s strategic considerations

Question: [left] Are boards of directors in Switzerland taking sufficient leadership in integrating a company’s strategy with corporate social responsibility as well as incentives and capital allocation? [right] How do you judge the weight of corporate social responsibility in the strategy development process in the boardroom?

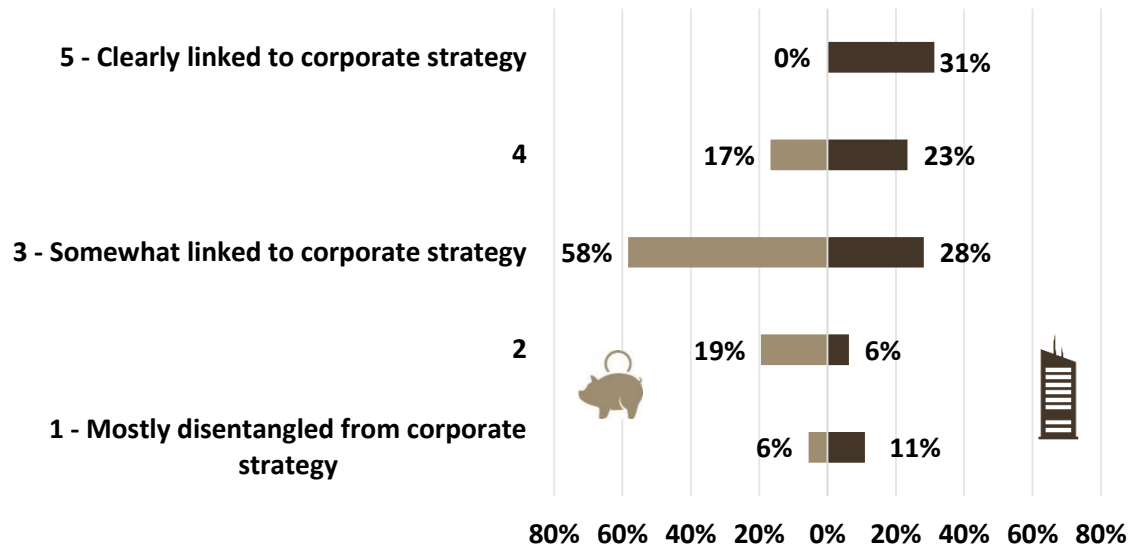


Board of Directors - More leadership and dialogue required

Integration of CSR and corporate strategy

Link between CSR and strategy

Survey 2020



- Gap in perception of how CSR disclosure is linked to strategy
 - 54% of issuers believe that there is clear link between CSR and strategy
 - 25% of investors believe that CSR and strategy disclosure is largely disentangled
- Due to the complexity of CSR integration, engagements with shareholders and a private-to-public dialogue are essential to complement the general disclosure strategy

Question: [Shareholders] How do you assess the disclosure of listed companies in Switzerland with respect to corporate social responsibility (CSR/ESG)? [Issuers] How do you assess the disclosure of your company with respect to corporate social responsibility?

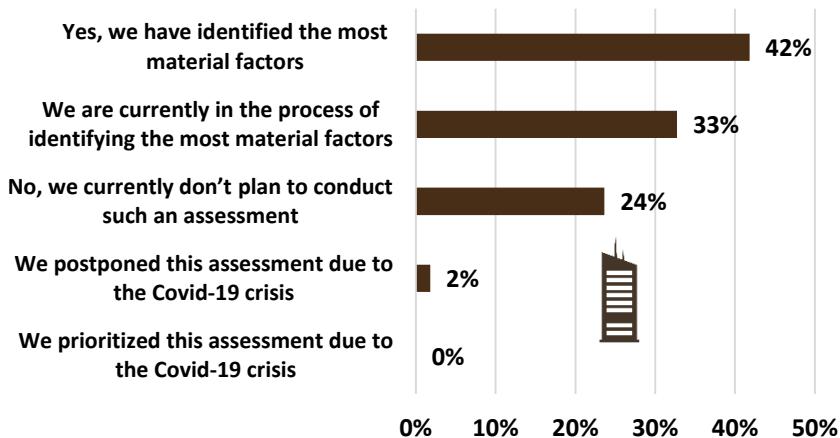


Board of Directors - More leadership and dialogue required

Materiality of CSR factors

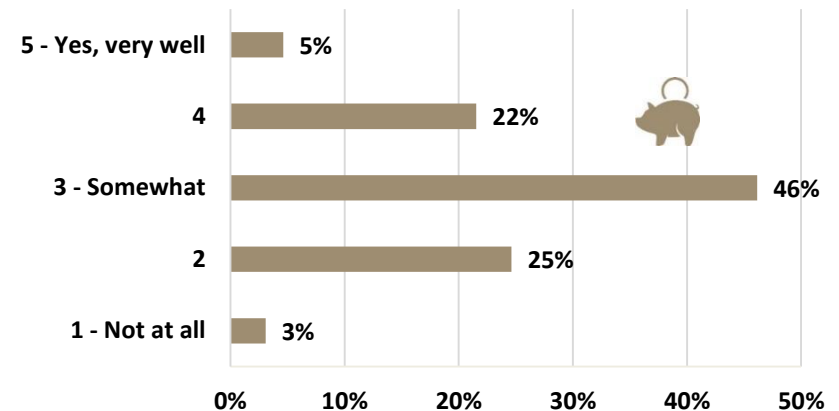
Identification of material CSR factors

Survey 2020



Shareholders understanding of material CSR factors

Survey 2020



- Material CSR factors are a natural candidate for non-financial performance targets, but...
 - Less than half of the issuers have identified their material CSR factors
 - Only 28% of the institutional shareholders understand which CSR factors are material for a company from the publicly available information

Questions: [left] Have you assessed the materiality of various CSR/ESG-measures to identify the most relevant ones for your company and its strategy yet? [right] Do you understand from the companies' disclosure, which CSR/ESG-factors are the most material ones for the individual company and how these factors are integrated into the companies' business strategies?

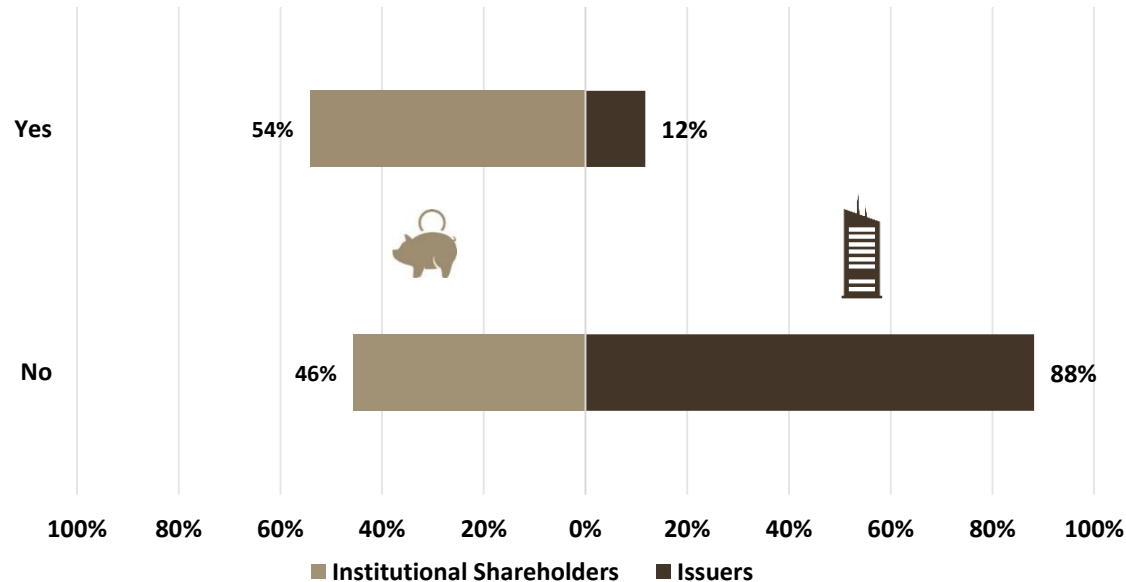


Board of Directors - More leadership and dialogue required

CSR responsibility in the global supply chain

Board responsibility for a company's global supply chain

Survey 2020



- Overall, shareholder support the notion that companies should take responsibility for their worldwide supply chain
 - Different view of Swiss and non-Swiss shareholders likely due to current discussion in Switzerland on how this responsibility should be defined

Question: Should companies and their boards of directors be held responsible for actions throughout their value chain, even for suppliers outside of the group which they can factually control in a relevant way?

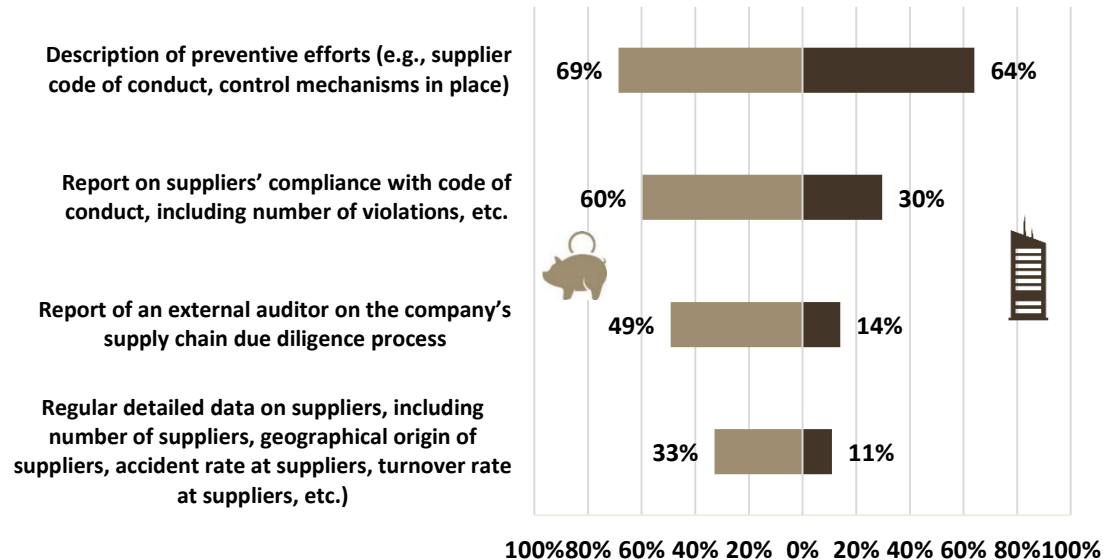


Board of Directors - More leadership and dialogue required

Supply chain responsibility

Relevant disclosure for assessing supply chain responsibility

Survey 2020



- Issuers and shareholders agree that disclosure of preventive efforts is the most relevant information to assess supply chain due diligence regarding social and environmental factors
- Contrary to issuers, shareholders also believe that the assessment of suppliers against these rules are relevant information, arguably because this indicates the integrity of these rules

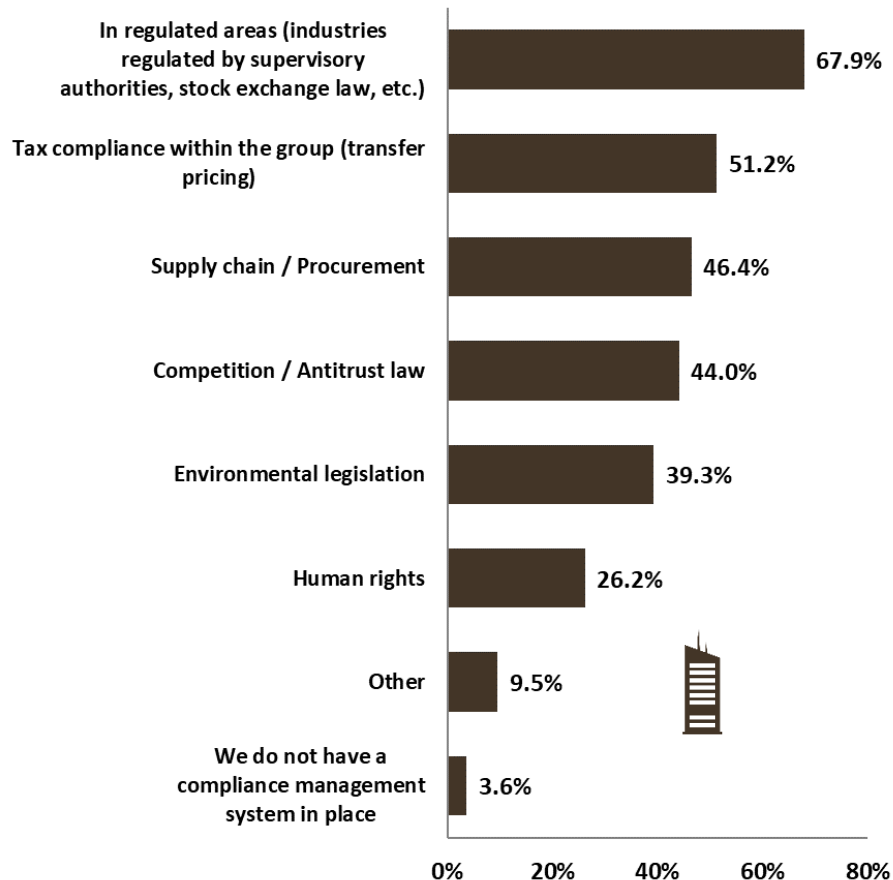
Question: Various governments, including the Swiss, are currently thinking about regulations requiring holding- or parent-companies to conduct a proper due diligence with respect to social and environmental factors (e.g., child labor, resource pollution, ...) for the whole group, specifically within their global supply chain. What information do you deem relevant to assess a company's respective effort from the outside? (Percentages summarize fraction of "Yes" answers)



Compliance Management Systems

Areas of CMS in place

Survey 2018



- More than two thirds of the respondents have a compliance management system in regulated areas, more than half in the field of internal tax compliance
- About 40% of the responding issuers have a compliance management system in place for environmental legislation, 26.2% in the field of human rights

Questions: In which areas do you have a compliance management system in place?