

2017 SWISS GENERAL MEETING SEASON

Shareholder concerns over executive pay

On 22 August, Ethos published its annual study on the “2017 AGM season, board and executive remuneration as well as corporate governance of Swiss listed companies”¹. The study covers all companies included in the Swiss SPI Index (200). The 2017 voting results demonstrate an enhanced shareholder contestation reflected in the lower average approval rate of the resolutions put to shareholder vote. The critical votes concerned especially the items related to board and executive remuneration as there was often a disconnection between pay and performance.

By Yola Biedermann



DR. YOLA BIEDERMANN joined Ethos in 1999 and has been a member of Ethos Services' management since 2011. She is Head of the corporate governance and sustainability team. She earned a Ph.D. in Economics at the University of Geneva.

In total, 27 resolutions were rejected by the general meeting in 2017, while 7% of all resolutions voted by the shareholders received less than 80% support, up from 4% in 2016. Moreover, in companies with a controlling shareholder (holding more than 33.3% of voting rights), 30 proposals would have been rejected if just the votes of the shareholders other than the controlling shareholder had been taken into account.

As every year, the most contested resolutions in 2017 were those related to remuneration topics. It is important to note that the overall average executive remuneration remained almost unchanged in 2017. It however rose by 7% in the financial sector where, at the same time, net income fell by 12%, which explains the enhanced contestation of shareholders in this sector. The average oppose rate to the consultative vote on the remuneration report was 13.3% (up from 11% in 2016) and 21% of remuneration reports received in 2017 less than 80% support (up from 16% last year).

In Switzerland, the implementation of the Minder initiative also requires that shareholders cast binding votes on board and executive remuneration. These votes can be prospective (ex ante) or retrospective (ex post). Ethos is of the opinion that retrospective votes on the amounts to be paid to the executive management are best practice, as they allow shareholders to decide whether the amount requested is in line with the performance effectively achieved by the company. Unfortunately, in practice, only 23% of Swiss listed companies have opted for retrospective votes, allegedly for fear of losing their executive management that might resign in case of rejection of their pay by the AGM. However, in reality, the reaction of the management is not to resign but rather to accept a smaller (or no) bonus when the binding vote is rejected, as demonstrated by the reduced 2016 bonus for Credit Suisse's management.

Concerns regarding transparency, structure and amounts of remuneration

Ethos' voting recommendations are based on precise and transparent guidelines². Ethos' voting pattern is very different than that of shareholders in general, as in 2017 Ethos approved less than half (45.3%) of remuneration reports (down from 47.2% last year). Regarding executive remuneration, Ethos approved 56.4%

of the binding prospective votes and 73.2% of the binding retrospective votes. These differences can be explained, among others, by the fact that a vote on the executive management's variable remuneration for the financial year under review (retrospective vote) allows shareholders to approve the confirmed alignment between pay and performance.

In 2017, Ethos cast 86 oppose votes on executive remuneration. Most negative votes involved insufficient transparency (when, for example, the amount requested is presented in a single figure without breakdown between components of the remuneration or recipients), followed by (i) an inadequate structure of executive remuneration according to Ethos (excessive variable pay with regard to the base salary or a large amount of restricted shares granted to the management) and (ii) excessive overall amounts with regard to the size, complexity and performance of the company. 13 oppose votes were due to the combination of the three reasons.

Ethos maintains a constructive dialogue with Swiss listed companies and conveys its concerns regarding board and executive remuneration prior to issuing its voting recommendations. In order to be able to increase its approval rate of both remuneration reports and amounts Ethos needs:

1

Sufficient transparency in the remuneration report and the invitation to the general meeting regarding the components of the remuneration packages, the beneficiaries and the fair value of the amounts granted.

2

A remuneration structure that is in line with Ethos' guidelines, where variable remuneration is not excessive with regard to base salary and is in a large part linked to the company's performance, in particular when the amounts paid out are high.

3

A total remuneration that is commensurate with the company's size and complexity.

4

Retrospective votes on executive remuneration in order to have a precise view of the alignment of the effective payments with the performance of the company.

¹<https://www.ethosfund.ch/en/news-and-publications/reports-publications>

²https://www.ethosfund.ch/sites/default/files/2016-12/LDPCG_Ethos_2017_EN_FINAL2_0.pdf