

# The Swedish Code of Corporate Governance



*Applicable from 1 July 2008*

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The English language version of the Swedish Corporate Governance Code is a translation of the original Swedish text. Where possible differences in interpretation or errors in translation exist, the Swedish text is to take precedence.



# FOREWORD

The Swedish Corporate Governance Board, (The Board), has now completed its revision of the Swedish Code of Corporate Governance.

Since 1 July 2005, the OMX Nordic Exchange Stockholm requires all companies listed on the stock exchange and whose market value exceeds SEK 3 billion to apply the Swedish Code of Corporate Governance, (the Code). This currently comprises over a hundred companies. By July 2008, the majority of these companies will have been applying the Code for three years.

So far, experience of using the Code has been mainly positive. After some teething troubles, some of which were solved by instructions from the Corporate Governance Board and some by the companies themselves developing practical solutions, the Code now works without any major problems for most companies. At the same time, the Board feels that the Code has contributed significantly to continued improvements in the quality of Swedish corporate governance, which in turn has strengthened confidence in listed companies among the Swedish general public and on the Swedish and international capital markets.

When the Code was introduced, the aim was that it should also be applied to smaller stock exchange listed companies within a few years. The Swedish Corporate Governance Board believes that it is now time for the Code to be applied to all Swedish limited companies whose shares are traded on regulated markets in Sweden.

Such an extension of the Code requires it to be adapted to the circumstances of smaller listed companies. The Board has therefore reviewed the Code with the aim of shortening and simplifying it as much as possible without relaxing the criteria for good corporate governance in Swedish listed companies. The Board has also focused on eliminating weaknesses that have come to light in the application of the Code so far and on preparing the Code for continued discussions on harmonising corporate governance norms in the Nordic countries. The revised Code is a result of this review.

The process occurred in two steps. First, the Board developed a proposed revised Code, which was published on the Board's web site on 1 February 2008. An open invitation was issued to submit comments and feedback on this proposal. The comments received and the opinions expressed in the general debate surrounding the proposal then provided the basis of the Board's final revisions to the Code. Many suggestions and opinions were received by the Board, both during the first stage of the process and fol-

lowing the publication of the proposed revised version. The Board would like to thank everyone who has contributed in this way.

During the revision process, Anders Ackebo of OMX Nordic Exchange Stockholm and Björn Wallin of NGM have been seconded to the Board. A special working group was also set up by the Board. This group comprised the Board Secretary, Per Lekvall, two Board members, Leif Lindberg and Anders Malmeby, and three independent advisers, Thomas Halvorsen, Björn Kristiansson and Rolf Skog.

The revised Code contains a number of changes compared with the previous Code. There are various reasons for the changes, but these do not mean that the original principles of the rules have changed or ceased to be relevant. For example, some rules that are not regarded as adding to what is covered by the existing legislation have been removed, especially where changes in legislation have been enacted since the original Code was introduced.

A comparison of the previous and the revised Code texts, with comments, is available on the Board's website, [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se), along with comments on some of the opinions and suggestions that have been raised during the process.

The revised Swedish Code of Corporate Governance is applicable from 1 July 2008.

Hans Dalborg  
Chair, The Swedish Corporate Governance Board

May 2008



# I. A revised code of Corporate Governance

## 1. Aims

Good corporate governance is a question of ensuring that companies are run as efficiently as possible on behalf of their shareholders. The confidence of existing and potential shareholders that such is the case is crucial to their interest in investing in companies, thus securing corporate Sweden's supply of risk capital.

The main aim of the Swedish Code of Corporate Governance is to improve confidence in Swedish listed companies by promoting positive development of corporate governance in these companies. The Code acts as a complement to legislation and other regulations by specifying a norm for good corporate governance at a higher level of ambition than the statutory regulation. However, this norm is not mandatory. Companies may deviate from individual rules, providing they report each deviation, describe their own solution and explain why. In this way, the actors in the market can formulate their own opinions on the solution the company has chosen.

Another aim of the Code is to provide an alternative to legislation. The Swedish Corporate Governance Board feels that self-regulation is often preferable to legislation and sees the Code as the primary instrument for this.

## 2. Target group

The target group for the revised Code is Swedish companies whose shares are listed on a regulated market in Sweden. At present, there are two regulated markets in Sweden, OMX Nordic Exchange Stockholm and NGM Equity.

The companies listed on these markets are of varying size and complexity, ranging from large, globally active companies to small entrepreneur-run companies. The revised Code will be applicable to the full spectrum of these companies. This places great demands on the Code to allow flexibility when applying individual rules in practice, but also on companies to dare to choose solutions other than those specified in the Code and to explain these deviations when they feel they are justified.

### 3. Guiding principles

The Board set out to create a corporate governance code that fulfils the aims set out above. In concrete terms, this means that the revised Code must

- provide a clear norm for good corporate governance in Swedish listed companies based on established and accepted principles,
- be sufficiently ambitious to provide an alternative to legislation on issues where self-regulation is preferable,
- be applicable to all stock exchange listed companies without causing unnecessary administration or unjustifiable expense.

A further objective was to ensure that the revised Code would not provide obstacles to increased harmonisation of corporate governance in the Nordic countries.

When the Code was originally developed, the Code Group<sup>1</sup> defined a number of guiding principles for its work. The Corporate Governance Board shares the values expressed by these principles, which result in a Code that aims to

- create good conditions for active and responsible ownership,
- establish a clear and well-balanced division of roles and responsibilities between owners, boards and executive management,
- ensure that the principle of equal treatment outlined in the Swedish Companies Act is applied in practice,
- create a maximum of transparency towards shareholders, the capital markets and society in general.

### 4 The role of the Corporate Governance Board in Swedish self-regulation

The Corporate Governance Board's mission is to promote good corporate governance in Swedish listed companies, primarily through managing and administering the Code. This means that the Board monitors and analyses the practical application of the Code and makes any changes that the Code may then require. The Board is one of the four bodies that constitute the Association for Generally Accepted Principles in the Securities Market, an association charged with creating a structure for self-regulation within the securities market <sup>2</sup>.

<sup>1</sup> The Code Group was the joint government – private industry working group responsible for developing the original version of the Code, published in December 2004.

<sup>2</sup> The other members of the Association are the Swedish Securities Council, the Swedish Industry and Commerce Stock Exchange Committee, and the Swedish Financial Reporting Board.



The Board's task in self-regulation is to set norms for good corporate governance in stock exchange listed companies. The Board does not, however, have a supervisory or regulatory role regarding how individual companies apply the Code. The Swedish Securities Council, whose role is to promote accepted principles in the securities market, may on request issue statements on how the Code should be interpreted. The task of ensuring that companies apply the Code falls to the stock exchanges on which their shares are traded, while judgements on companies' decisions to comply with or deviate from the rules of the Code are made by the actors in the capital markets.

## 5 The structure and content of the Code

The Code deals with the decision-making system through which shareholders directly or indirectly govern the company. The main emphasis is on company boards in their role as central players in corporate governance.

As regards shareholders, the line is drawn at shareholders' meetings. Issues such as the interplay between owners and the rules and workings of the stock market are not covered, nor are issues regarding companies' relationships with other "stakeholders", which are felt to be beyond the framework of a strictly owner-orientated view of corporate governance.

The Code forms part of corporate Sweden's self-regulation. Corporate governance rules are set out in the Companies Act, stock exchange listing requirements and statements issued by the Swedish Securities Council.

The Code defines a norm for good corporate governance at a more ambitious level than the minimums specified in the Companies Act and other regulations. The key to this is the comply or explain mechanism. This means that companies are not obliged to apply every rule in the Code, but are allowed the freedom to choose alternative solutions which they feel are better in their particular circumstances, providing they report every deviation, describe the alternative solution and explain the reasons why. In this way, the Code specifies what is often, but not necessarily always, regarded as good corporate governance practice. For individual companies, however, alternative solutions to those contained in the Code may well result in better corporate governance.

Most of the rules in the Code are formulated so as to allow non-compliance to be identified objectively and explained. For pedagogical reasons, the Code also contains certain rules for which compliance cannot be verified objectively and therefore any non-compliance with these is unlikely to require reporting. Similarly, it contains some rules which to a greater or lesser extent can be considered to be logical consequences of legal or regulatory requirements. Obviously this does not mean that companies can choose to ignore mandatory provisions of company legislation or stock exchange regulations by referring to the Code's comply or explain mechanism.

The Code consists of a set of numbered rules. It is with these rules that companies applying the Code must comply or explain. To avoid uncertainty about the requirements, the phrases “is to” and “may” are used throughout.

Some sections of the Code have a short introductory text in italics. The aim of these introductory texts is to explain the principles or legislation behind the rules; they are not part of the actual rules and there is therefore no requirement to comply or explain. In addition, some of the rules are accompanied by footnotes. Similarly, the comments in these footnotes are not part of the rule text and there is no requirement to comply with them or to report non-compliance.

## **6 Which companies are to apply the Code**

The revised Code comes into force on 1 July 2008. From that date, it is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code.

The following rules apply for introduction of the revised Code:

- Companies that applied the previous version of the Code before 1 July 2008 are to apply the revised Code from that date.
- Companies that did not apply the previous version of the Code before 1 July 2008 are to apply the revised Code as soon as possible and no later than the date of the first annual general meeting held after 1 January 2009. A corporate governance report is therefore to be included in or attached to the annual accounts for 2008. This report does not need to report and explain non-compliance with rules that have not been relevant since the company began to apply the Code, e.g. if Code rules regarding shareholders’ meetings and nomination committees were not applied at annual general meetings held before 1 July 2008.
- Companies whose shares are launched on a regulated market after 1 July 2008 are to apply the Code in the same way as those in the previous point. The Code is thus to be applied fully from the date of the first annual general meeting held the year after stock exchange flotation.

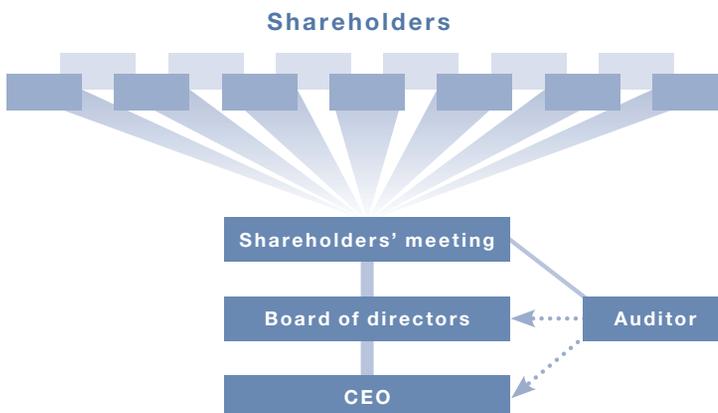


## II. The Swedish Corporate Governance model

Corporate governance in Swedish stock exchange listed companies is regulated by a combination of written rules and generally accepted practices. The framework includes the Swedish Companies Act (Aktiebolagslagen 1975:1385), supported by the Swedish Code of Corporate Governance and the regulations regarding stock exchange listings for the regulated markets on which shares are quoted, as well as statements by the Swedish Securities Council on what constitutes good practice in the Swedish securities market.

The Companies Act contains general regulations about the governance of the company. The Act specifies which governance bodies must exist in a company, the tasks of each body and the responsibilities of the people in each of these positions. The Code complements the Act by placing higher demands on companies on certain issues, while simultaneously allowing them to deviate from rules in individual cases if it is deemed that this will lead to better corporate governance, ("comply or explain").

The Companies Act stipulates that companies must have three decision-making bodies in a hierarchical relationship to one another: the shareholders' meeting, the board of directors and the chief executive officer. There must also be a controlling body, an auditor, which is appointed by the shareholders' meeting.



## 1 The ownership role

The preparatory documents to the Swedish Companies Act emphasise the importance of active ownership. Shareholders provide the business sector with risk capital, but they also contribute to the efficiency and dynamism of individual companies and the business sector in general by buying and selling shares, as well as by participating in and exercising influence at shareholders' meetings. Active shareholder participation promotes a healthy balance of power between owners, the board and the executive management.

Ownership structure on the Swedish stock market differs significantly from that in countries such as the United Kingdom or the United States. While the majority of listed companies in those countries have a very diverse ownership structure, ownership in Sweden is often concentrated to single or small numbers of major shareholders, as is the case in many continental European countries. These shareholders often play an active ownership role and take particular responsibility for the company, for example by sitting on the board of directors.

Swedish society takes a positive view of major shareholders taking particular responsibility for companies by using seats on boards of directors to actively influence governance. At the same time, major holdings in companies must not be misused to the detriment of the company or the other shareholders. The Companies Act therefore contains a number of provisions which offer protection to minority shareholders, such as requiring qualified majorities for a range of decisions at shareholders' meetings.

## 2 The shareholders' meeting

The shareholders' meeting is a limited company's highest decision-making body and a forum for shareholders to exercise influence. The Swedish shareholders' meeting can decide on any company issue which does not expressly fall within the exclusive competence of another corporate body. In other words, the shareholders' meeting has a sovereign role over the board of directors and the chief executive officer.

Each shareholder has the right to participate in the shareholders' meeting and to vote according to the number of shares owned. Shareholders who are not able to attend in person may exercise their rights by proxy. Each shareholder also has the right to have items included in the agenda of the meeting, regardless of the number of shares held, providing a request has been submitted to the board of directors in due time for the item to be included in the notice of meeting.

The annual general meeting must be held within six months of the end of the financial year in order to decide on whether to adopt the income statement and balance sheet and decide on the appropriation of profits or losses. The meeting also decides on



discharge of liability for members of the board and the chief executive officer, as well as other issues on which it is obliged by law or its articles of association to decide, such as the election of members of the board and the auditor. Board and auditor fees are also decided by the shareholders' meeting.

The board may call an extraordinary general meeting if a shareholder minority representing at least ten per cent of the company's shares so requests. The same applies if the company auditor requests an extraordinary shareholders' meeting. The board may also call an extraordinary shareholders' meeting on its own initiative.

Decisions at shareholders' meetings are taken by simple majority vote. Certain decisions, however, such as changes to the articles of association, require a qualified majority. Each share carries one vote, unless otherwise stated in the articles of association. If the articles of association stipulate that shares have differentiated voting rights, no share may carry voting rights that are more than ten times that of any other share.

A shareholders' meeting may not make any decision that aims to give undue advantage to one shareholder or individual to the disadvantage of the company or any other shareholder.

### **3 The board of directors**

The board is responsible for the company's organisation and the management of the company's business. The extensive decision-making authority assigned by the law to the board of directors is primarily limited by the legal provisions giving the shareholders' meeting exclusive decision-making powers on certain matters, e.g. changes to the articles of association, election of board members and the auditor and adoption of the balance sheet and income statement.

The board is obliged to follow any specific directives passed by the shareholders' meeting, providing these do not contravene the Swedish Companies Act or the company's articles of association.

The board may delegate tasks to individual members or non-members of the board, but may not disclaim liability for the company's organisation and management or its obligation to ensure satisfactory control of the company's financial position. When delegating, the board has an obligation to act responsibly and to monitor that such delegation can be maintained.

The board must specify its ways of working in written rules of procedure. If there is a division of tasks and responsibilities between the members of the board, e.g. if the board has a committee to prepare certain issues, such as an audit committee, this must be described in its rules of procedure. The board may also delegate decision making to such a committee, but it may not disclaim responsibility for decisions made on this basis.

The board must consist of no fewer than three members, one of which is to be appointed chair. The chair has particular responsibility for leading the work of the board and ensuring that it fulfils its legal obligations.

Current OMX Nordic Exchange Stockholm regulations stipulate that no more than one of the directors elected by the shareholders' meeting may be on the executive management team of the company or one of its subsidiaries. Normally, this place is taken by the chief executive officer. However, many companies have no member of the executive management on the board.

Boards of Swedish stock exchange listed companies are therefore composed almost entirely of non-executive directors. The same stock exchange regulation also states that a majority of the members of the board are to be independent of the company and its management. At least two members must also be independent of the company's major shareholders,<sup>3</sup> which means that it is possible for major shareholders of Swedish companies to appoint a majority of members with whom they have close ties. This is in line with the positive view of active and responsible ownership expressed in the preparatory documents to the Swedish Companies Act.

#### **4 The chief executive officer**

The chief executive officer is responsible for the company's day-to-day management. Matters of an unusual nature or of exceptional importance due to their scope and the nature of the company's business are not considered part of the day-to-day management.

The chief executive officer must prepare and present issues that are outside the scope of day-to-day management to the board of directors. The board is to provide written instructions on when and how the required information is to be collected and reported to the board.

The chief executive officer is subordinate to the board of directors. The board may instruct the chief executive officer on how day-to-day management issues are to be handled or decided. Within the framework defined by the Swedish Companies Act and the company's articles of association, the chief executive officer is obliged to follow the instructions given by the board. The board itself may also decide on matters that are a part of day-to-day management.

The chief executive officer may be a member of the board but not its chair. Irrespective of whether the chief executive officer is a member of the board, he or she has the right to attend and speak at board meetings providing that the board does not decide otherwise in a particular circumstance.

<sup>3</sup> Major shareholders are defined as those owning ten per cent or more of the shares or votes in the company.



## 5 The auditor

The company's auditor is normally appointed by the shareholders' meeting to examine the company's annual accounts and accounting practices and to review the board's and the chief executive officer's management of the company. In the case of parent companies, the auditor is also to examine the consolidated accounts. Auditors of Swedish companies are therefore given their assignment by, and are obliged to report to, the owners, and they must not allow their work to be governed or influenced by the board or the executive management.

Auditors present their reports to the owners at the annual general meeting in the annual audit report. The audit report must contain a statement on whether the annual report has been compiled in accordance with the relevant legislation. The statement is to specify whether the annual report provides an accurate picture of the company's results and position and whether the director's report is consistent with the rest of the annual report. If the annual report does not include items that are required by the relevant legislation, the auditor must state this and, if possible, provide the necessary information in the audit report. Part of the auditor's assignment is to recommend whether the shareholders' meeting should adopt the balance sheet and income statement and whether the company's profit or loss should be appropriated in accordance with the proposals in the director's report.

The auditor is also obliged to report if any member of the board or the chief executive officer has carried out any action or committed any oversight that may result in liability for damages. The same applies if the auditor has found that any member of the board or the chief executive officer has acted in any other way that is in breach of the Companies Act, the relevant legislation on annual accounts or the company's articles of association.

# III. Rules for Corporate Governance

## 1 The shareholders' meeting

*Shareholders' influence in the company is exercised at the shareholders' meeting, which is the company's highest decision-making body. The planning and running of the shareholders' meeting must create conditions in which shareholders can exercise their ownership role in an active, well-informed manner.*

- 1.1 As soon as the time and venue of the shareholders' meeting have been decided, and no later than in conjunction with the third quarter report, the information is to be posted on the company's web site. This information is also to include the closing date for issues to be submitted by shareholders for inclusion in the notice of meeting.
- 1.2 The notice of meeting and other documents relevant to the shareholders' meeting are to be available in such time and in such a form that they provide shareholders with sufficient opportunity to form a well-founded opinion on the issues raised.
- 1.3 The company chair and as many members of the board as are required for a quorum are to be present at shareholders' meetings. The chief executive officer is to attend.

At least one member of the company's nomination committee, at least one of the company's auditors and, if possible, each member of the board are to be present at the annual general meeting.
- 1.4 The company's nomination committee is to propose a chair for the annual general meeting. The proposal is to be presented in the notice of the meeting.
- 1.5 The shareholders' meeting is to be conducted in Swedish and the material presented is to be available in Swedish. If the ownership structure warrants it, and it is financially feasible, the company is to offer simultaneous interpretation into other relevant languages, as well as translation of all or parts of the meeting documentation.



- 1.6 A shareholder, or a representative of a shareholder, who is neither a member of the board nor an employee of the company is to be appointed to verify the minutes of the shareholders' meeting.
- 1.7 The minutes of the latest annual general meeting and any subsequent extraordinary shareholders' meetings are to be posted on the company's web site. It is not necessary to publish the register of voters from the meeting. The minutes are also to be translated from Swedish into any other language warranted by the ownership structure, providing this is financially feasible.

## **2 Appointment and remuneration of the board and auditors**

*The shareholder's meeting's decisions on election and remuneration of the board of directors and the auditors are to be prepared in a structured, clearly stated process governed by the shareholders that provides conditions for well-informed decision-making. The sole task of the nomination committee is to propose decisions to the shareholders' meeting on electoral and remuneration issues and, where applicable, procedures for the appointment of next year's nomination committee. Regardless of how they are appointed, members of the nomination committee are to promote the interests of all shareholders. Members are not to reveal the content and details of nominations discussions unduly.*

- 2.1 The company is to have a nomination committee.

The nomination committee is to propose candidates for the post of chair and other members of the board, as well as fees and other remuneration to each member of the board.

The nomination committee is also to make proposals on the election and remuneration of the company auditor.
- 2.2 The shareholders' meeting is to appoint members of the nomination committee or to specify how they are to be appointed.

This decision is to include procedures for replacing members of the nomination committee who leave before its work is concluded.
- 2.3 The nomination committee is to have at least three members, one of whom is to be appointed committee chair.

The majority of the members of the nomination committee are to be indepen-

dent of the company and its executive management.<sup>4</sup> Neither the chief executive officer nor other members of the executive management are to be members of the nomination committee.

At least one member of the nomination committee is to be independent of the company's largest shareholder in terms of votes or any group of shareholders that act in concert in the governance of the company.

- 2.4 Members of the board of directors may be members of the nomination committee but may not constitute a majority thereof. Neither the company chair nor any other member of the board may chair the nomination committee.

If more than one member of the board is on the nomination committee, no more than one of these may be dependent of a major shareholder in the company.<sup>5</sup>

- 2.5 The company is to announce the names of members of the nomination committee on its web site no later than six months before the annual general meeting. If any member represents a particular owner, that owner's name is to be stated. If any member leaves the committee, this information is to be published. If a new member is appointed to the nomination committee, the corresponding information about the new member is to be provided.

The web site is also to provide information on how shareholders may submit recommendations to the nomination committee.

- 2.6 The nomination committee's proposals are to be presented in the notice of the shareholders' meeting and on the company's web site.

When the notice of the shareholders' meeting is issued, the nomination committee is to issue a statement on the company's web site explaining its proposals regarding the board of directors with regard to the requirements concerning the composition of the board contained in Code rule 4.1. If the outgoing chief executive officer is nominated for the post of chair, reasons for this proposal are also to be fully explained.

The following information on candidates nominated for election or re-election to the board is to be posted on the company's web site:

- The candidate's age, principal education and work experience,
- any work performed for the company and other significant professional commitments,

<sup>4</sup> Definitions and criteria for assessment of independence can be found in the regulations of OMX Nordic Exchange Stockholm and NGM respectively.

<sup>5</sup> Major shareholders are defined as those controlling at least ten per cent of the shares or votes in the company.



- any holdings of shares and other financial instruments in the company and any such holdings owned by the candidate or the candidate's related natural or legal persons,
- whether the nomination committee deems the candidate to be independent of the company and its senior management, as well as of major shareholders in the company,
- in the case of re-election, the year that the person was first elected to the board.

2.7 At a shareholders' meeting where election of board members or auditor is to be held, the nomination committee is to give an account of how it has conducted its work and explain its proposals..

### **3 The tasks of the board of directors**

*The board of directors is to manage the company's affairs in the interests of the company and all shareholders.*

- 3.1 The principle tasks of the board of directors include
- establishing the overall operational goals and strategy of the company,
  - appointing, evaluating and, if necessary, dismissing the managing director,
  - ensuring that there is an effective system for follow-up and control of the company's operations,
  - ensuring that there is a satisfactory process for monitoring the company's compliance with laws and other regulations relevant to the company's operations,
  - defining necessary guidelines to govern the company's ethical conduct,
  - ensuring that the company's external communications are characterised by openness, and that they are accurate, reliable and relevant,
- 3.2 The board is to approve any significant assignments the chief executive officer has outside the company.

### **4 The size and composition of the board**

*The board is to have a size and composition that enables it to manage the company's affairs efficiently and with integrity.*

- 4.1 The board is to have a composition appropriate to the company's operations, phase of development and other relevant circumstances. It is to exhibit diversity and breadth of qualifications, experience and background. The company is to strive for equal gender distribution on the board.

- 4.2 Deputies for directors elected by the shareholders' meeting are not to be appointed.
- 4.3 No more than one member of the board may be a member of the executive management of the company or a subsidiary.<sup>6</sup>
- 4.4 The majority of the directors elected by the shareholders' meeting are to be independent of the company and its executive management. At least two of these directors are also to be independent of the company's major shareholders.<sup>7</sup>

Nominees are to provide the nomination committee with sufficient information to enable an assessment of the candidate's independence as defined in the first paragraph of this rule.
- 4.5 Members of the board are to be appointed for a period extending no longer than to the end of the next annual general meeting.

## 5 The tasks of directors

*Directors are to devote the necessary time and care, and to ensure they have the competence required, to effectively protect and promote the interests of the company and its owners. To enable it to make well-founded decisions, the chief executive officer is to provide the board with the necessary background information and documentation for its work, both before and between board meetings.*

- 5.1 Each director is to form an independent opinion on each matter considered by the board and to request whatever information he or she believes necessary for the board to make well-founded decisions.
- 5.2 Each director is obliged to acquire the knowledge of the company's operations, organisation, markets etc. required for the assignment.

<sup>6</sup> This rule is contained in the regulations governing the markets run by OMX Nordic Exchange Stockholm and NGM, respectively, and already applies to companies whose shares are traded there.

<sup>7</sup> Major shareholders are defined as those who control at least ten per cent of the shares or votes in a company. The first part of this rule is contained in the regulations governing the markets run by OMX Nordic Exchange Stockholm and NGM, respectively, and already applies to companies whose shares are traded there. These regulations also contain criteria for defining independence.



## 6 The chair of the board

*The chair has a particular responsibility to ensure that the work of the board is well organised and conducted efficiently.*

- 6.1 The chair of the board is to be elected by the shareholders' meeting. If the chair relinquishes the position during the mandate period, the board is to elect a chair from among its members to serve until the end of the next annual general meeting.
- 6.2 If the chair of the board is an employee of the company or has duties assigned by the company in addition to his or her responsibilities as chair, the division of work and responsibilities between the chair and the chief executive officer is to be clearly stated in the formal work plan of the board of directors and in its instructions to the chief executive officer.
- 6.3 The chair is to ensure that the work of the board is conducted efficiently and that the board fulfils its obligations. In particular, the chair is to
  - organise and lead the work of the board, creating the best possible conditions for the board's activities,
  - ensure that new board members receive the necessary introductory training, as well as any other training that the chair and member agree is appropriate,
  - ensure that the board regularly updates and develops its knowledge of the company and its operations,
  - be responsible for contacts with the shareholders regarding ownership issues and communicate shareholders' views to the board,
  - ensure that the board receives sufficient information and documentation to enable it to conduct its work,
  - in consultation with the managing director, draw up proposed agendas for the board's meetings,
  - verify that the board's decisions are implemented, and
  - ensure that the work of the board is evaluated annually.

## 7 Board procedures

*The formal procedures for the work of the board of directors are to be stipulated by the board. These procedures are to be clear and well documented.*

- 7.1 The board is to review the relevance and appropriateness of its formal work plan, instructions to the chief executive officer and reporting instructions at least once a year.

- 7.2 If the board establishes special committees to prepare its decisions on specific issues, the formal work plan of the board is to specify the duties and decision-making powers that the board has delegated to these committees and how the committees are to report to the board. Committees are to keep minutes of their meetings and the minutes are to be made available to the board.
- 7.3 The minutes of the board are to provide a clear representation of the matters discussed, the material supporting each item and the substance of the decisions taken. The minutes are to be sent to each member of the board as soon as possible following the board meeting.

## **8 Evaluation of the board of directors and the chief executive officer**

*Regular and systematic evaluation forms the basis for assessment of the performance of the board and the chief executive officer and for the continuous development of their work.*

- 8.1 The board of directors is to evaluate its work annually, using a systematic and structured process, with the aim of developing the board's working methods and efficiency. The results of this evaluation are to be made available to the nomination committee.
- 8.2 The board is to continuously evaluate the work of the chief executive officer. The board is to examine this issue formally at least once a year, and no member of the executive management is to be present during this formal evaluation process.

## **9 Executive management remuneration**

*The board is to have formal and clearly stated processes for deciding on remunerations to members of the executive management.*

- 9.1 The board is to establish a remuneration committee with the task of preparing proposals on remuneration and other terms of employment for the executive management.
- The chair of the board may chair the remuneration committee. The other members of the committee are to be independent of the company and its executive management.



If the board of directors feels it is more appropriate, the entire board may perform the remuneration committee's tasks, on condition that no director who is also a member of the executive management participates in this work.

- 9.2 The shareholders' meeting is to decide on all share- and share-price-related incentive schemes for the executive management.

Members of the board are not to participate in share and share-price related incentive schemes designed for executive management or other employees of the company. If such a scheme is designed solely for the board, it must be approved by the shareholders' meeting.

The decision of the shareholders' meeting is to include all the principle terms of the scheme.

Background material and documentation pertaining to the proposed scheme is to be made available to shareholders in good time before the shareholders' meeting. The material is to be clear and simple enough to allow shareholders to form an opinion on the reasons for the scheme, the principle terms of the scheme and any dilution of the share capital that may result from it, as well as the total cost to the company of different conceivable outcomes.

## **10 The audit committee, financial reporting and internal controls**

*The board of directors is responsible for ensuring that the company has good internal controls and formalised routines that ensure that established principles for financial reporting and internal controls are followed. The board is also responsible for ensuring that the company's financial reports are prepared in accordance with the law, relevant accounting standards and other requirements for listed companies.*

- 10.1 The board is to establish an audit committee consisting of at least three directors. The majority of the audit committee members are to be independent of the company and its executive management. At least one member of the committee is to be independent of the company's major shareholders. No board member who holds an executive management position is to be a member of the audit committee.

If the board of directors feels it is appropriate, the entire board may perform the audit committee's tasks, providing that no director who is a member of the executive management participates in this work.

- 10.2 The audit committee is to
- be responsible for the preparation of the board's work to ensure the quality of the company's financial statements,<sup>8</sup>
  - meet the company's auditor regularly to remain updated on the aims and scope of the audit, as well as to discuss co-ordination between external and internal audits and views on the company's risks,
  - establish guidelines on services other than auditing that the company may procure from the company's auditor,
  - evaluate the auditing work and inform the company's nomination committee of the results of this evaluation, and
  - assist the company's nomination committee in preparing nominations for the post of auditor and recommendations on fees for auditing services.
- 10.3 At least once a year, the board is to meet the company's auditor without the chief executive officer or any other member of the executive management present.
- 10.4 The board of directors is to ensure that the company's six- or nine-month report is reviewed by the auditor.
- 10.5 The board is to submit an annual report on the key aspects of the company's systems for internal controls and risk management regarding financial reports.
- 10.6 For companies that do not have a separate internal audit function, the board of directors is to evaluate the need for such a function annually and to justify its decision in its report on internal controls.

## 11 Information on Corporate Governance

*The board of directors is to inform shareholders and the capital market annually regarding corporate governance functions in the company and how the company applies the Swedish Code of Corporate Governance. This information is to be published in a corporate governance report and on the company's web site.*

<sup>8</sup> To ensure the quality of the financial statements, the committee normally has to consider all critical accounting issues and the financial reports presented by the company. The committee is expected to consider matters such as internal controls, regulatory compliance, material uncertainty in reported values, uncorrected errors, post-statement events, possible improprieties and other circumstances that may affect the quality of information in the financial statement.



11.1 The company is to produce a corporate governance report in conjunction with its annual accounts.<sup>9</sup>

In the corporate governance report, the company is to state clearly which Code rules it has not complied with, describe the solution it has adopted instead and explain the reasons in each case.

The report is to include a statement on which parts have been reviewed by the company auditor.

11.2 The following is to be included in the corporate governance report if it is not presented elsewhere in the annual report:

- The composition of the company's nomination committee. If any member of the committee has been appointed by a particular owner, the name of this owner is also to be stated,
- the information on each member of the board that is required by Code rule 2.6,
- the division of work among members of the board and a statement on how the work of the board was conducted during the most recent financial year, including the number of board meetings held and each member's attendance at board meetings,
- the composition, tasks and decision-making authority of any board committees, and each member's attendance at the respective committee's meetings,
- for the chief executive officer:
  - Age, principal education and work experience,
  - significant professional commitments outside the company,
  - holdings of shares and other financial instruments in the company or similar holdings by related natural or legal persons, as well as shareholdings and part ownership in enterprises with which the company has significant business relations,
- any infringement of the stock exchange rules applicable to the company, or any breach of good practice on the securities market reported by the relevant exchange's disciplinary committee or the Swedish Securities Council during the most recent financial year,
- a separate section containing the board's description of internal controls and risk management regarding financial reports, in accordance with Code rule 10.5.

<sup>9</sup> The corporate governance report may be included in the printed annual report or take the form of a separate document, but it is not a part of the formal annual accounts.

11.3 The company is to have a section of its web site devoted to corporate governance matters, where the company's most recent corporate governance report and its current articles of association are to be made available, along with any other information required by the Code<sup>10</sup>.

The corporate governance section of the web site is also to include up to date information regarding

- members of the board, the chief executive officer and the auditor,
- a detailed account of each outstanding share- and share-price-related incentive scheme

Information that is updated within seven days of any changes made or becoming known to the company is to be regarded as up to date.

<sup>10</sup> See Code rules 1.1, 1.7, 2.5 and 2.6.

# KOLLEGIET

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