SWEDISH
CORPORATE
GOVERNANCE BOARD

Annual report 2013

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Foreword

The work of the Swedish Corporate Governance Board in 2012 was greatly influenced by the work of the European Commission in the field of corporate governance.

The Board has pushed for the European Commission not to include all the proposals that it presented in its 2011 green paper on corporate governance in its future work. The resistance the Commission encountered in many member states led the Commission to complement its green paper with a separate description of EU corporate law, and when the results were presented in an action plan on company law and corporate governance in December 2012, we were able to see that the Commission had taken on board at least some of the criticism that had been levelled at the initial proposals. The implementation of the action plan has just begun. We will therefore face a steady stream of proposed regulations from the EU during the period until the present Commission's mandate ends.

We have also been working to influence other future EU regulation. On the issue of implementation of rules concerning auditors and auditing, for example, we believe that the proposed rules on audit committees could mean fundamental changes in Swedish company legislation. On the issue of gender quotas on the boards of listed companies, which the Board feels is less a question of effective corporate governance and more a broader question of gender equality in the corporate sector, we have also presented a number of opinions. A clear common denominator in all of the Board's responses to different regulatory initiatives is that the benefits of any new regulation should clearly outweigh the costs, and the burden of proof for this lies with those wishing to introduce it. The European Commission's initiatives in the field of corporate governance have not fulfilled this criterion.

Another major task during 2012 was the review of rules for takeover bids. New takeover rules came into force on all the regulated markets and trading platforms in Sweden on 1 July 2012. As the European Commission declared in 2012 that the review of regulations contained in the takeover directive will not take place, we hope that there will be no need for any major changes to the Swedish rules in the foreseeable future. The Board took over responsibility for takeover rules from the now-defunct Swedish Industry and Commerce Stock Exchange Committee, (NBK), in 2010. It also assumed the role of issuing rules governing generally accepted principles in the Swedish securities market.

One such issue where the Board has been asked to issue rules is on direct placements in listed companies. This work will begin in 2013. It is also time to examine whether there is reason to make any revisions to the Swedish Corporate Governance Code. The board will begin this process by running a number of round table discussions with Code users during the year.

We also report the results of the surveys which are a part of the Board's monitoring of how the Code works in practice. Unfortunately, the survey of how listed companies have applied the Code shows that the quality of corporate governance reporting has declined. Also, the information provided by companies leaves a good deal to be desired in order to fulfil the detailed requirements of the Code. This is something that companies need to work on.

As in previous years, the third section of the report consists of articles on issues relevant to Swedish corporate governance written by external contributors. The authors of these contributions are entirely responsible for the views presented in these articles, and the opinions and values expressed are not necessarily shared by the Board.

Since its first publication in 2006, the Board's annual report has been a forum for information and discussion on the development of Swedish corporate governance. Its publication in English also allows actors in the international markets to remain informed about what is happening in this field in Sweden. It is the hope of the Board that this annual report, as those of previous years, will contribute to increased knowledge and understanding of Swedish corporate governance.

Stockholm, June 2013

Hans Dalborg
Chair of the Board

I. ACTIVITY REPORT

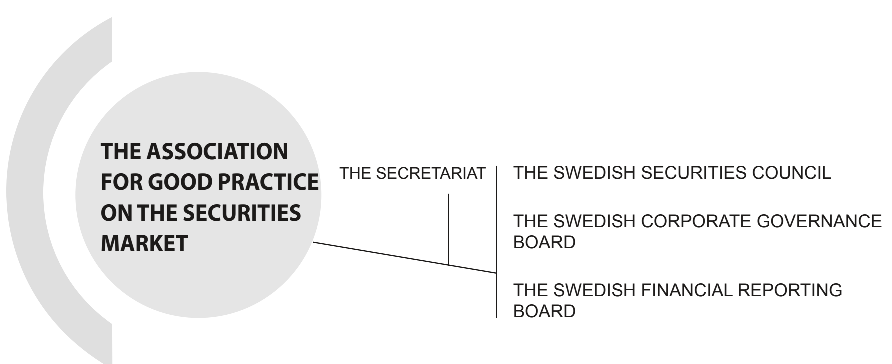
This part of the annual report describes the work of the Board during 2012–2013 and discusses current issues regarding the Code and Swedish corporate governance in general.

The Mission of the Swedish Corporate Governance Board

The Board is one of three bodies that constitute the Association for Generally Accepted Principles in the Securities Market, an association set up in 2005 to oversee self-regulation within the securities market. The other two bodies in the association are the Swedish Securities Council and the Swedish Financial Reporting Board. The members of the association are a number of organisations in the private corporate sector. See the illustration below and www.godsedpavpmarknaden.se/in-english_13 for more details.

The original and still primary role of the Board in promoting Swedish corporate governance is to determine norms for good governance of listed companies in Sweden. It does this mainly by ensuring that Sweden constantly has a modern, relevant and effective code for corporate governance in stock exchange listed companies. The Board also works internationally to increase awareness of Swedish corporate governance and the Swedish securities market, and to safeguard and promote Swedish interests within these fields. In May 2010, the role of the Swedish Corporate Governance Board was widened to include responsibility for issues previously handled by Näringslivets Börskommitté, the Swedish Industry and Commerce Stock Exchange Committee, namely to promote generally accepted principles in the Swedish securities market by issuing rules regarding good practice, such as rules concerning takeovers.

The role of the Board in promoting Swedish corporate governance is to determine norms for good governance of listed companies. It does this by ensuring that



the Swedish Corporate Governance Code remains appropriate and relevant, not only in the Swedish context, but also with regard to international developments. The Board continuously monitors and analyses how companies apply the Code through dialogue with its users and through structured surveys. It also monitors and analyses the general debate on the subject, changes in legislation and regulations concerning corporate governance, developments in other countries and academic research in the field. Based on this work and other relevant background information, the Board continuously considers the need for limited modifications to the Code or more general reviews of the entire Code. The Board is also an active contributor to international forums, including the European Union, promoting Swedish interests in the field of corporate governance. Another area of growing importance for the Board in recent years has been as a referral body on corporate governance issues.

The Board has no supervisory or adjudicative role regarding individual companies' application of the Code. Ensuring that companies apply the Code in accordance with stock exchange regulations is the responsibility of the company auditor and the respective exchanges. The responsibility for evaluating and judging companies concerning their compliance or non-compliance with individual rules in the Code, however, lies with the actors on the capital market. It is the company owners and their advisers who ultimately decide whether a company's application of the Code inspires confidence or not, and how that affects their view of the company's shares as an investment. Interpretation of the Code is not a matter for the Board either. This is the responsibility of Aktiemarknadsnämnden, the Swedish Securities Council, which issues interpretations on request. This is discussed in detail later in this report.

In its role of promoting generally accepted principles in the Swedish securities market, the Board is to:

- monitor application of rules, including those concerning takeovers,
- monitor legislation and other regulation, as well as academic research into stock market issues in Sweden and internationally, in order to devise any rules or changes to existing rules that are deemed appropriate and ensure that these have the support and acceptance of the actors concerned.

The Work of the Board during the Year

During the first part of 2012, the Board consisted of the Chair, Hans Dalborg, Carl Bennet, Lars-Erik Forsgårdh, Eva Halvarsson, Carola Lemne, Marianne Nilsson, Lars Pettersson, Lars Träff, Caroline af Ugglas and Anders Ullberg, as well as Executive Director Björn Kristiansson. Lars-Erik Forsgårdh, Marianne Nilsson, Lars Träff and Anders Ullberg left the Board at the parent organisation's annual general meeting in May 2012 and were replaced by Staffan Bohman, Peter Clemedtson, Annika Lundius and Tomas Nicolin. Magnus Billing continued as a co-opted member of the Board. Lars Thalén continued to act as a consultant and adviser on information issues.

The Board held four formal meetings during the year. Additionally, discussion and consultation took place by e-mail and telephone when required.

The Board's work during the year is summarised below.

Follow up of the Code and Swedish corporate governance

In order to monitor that the Code is working as intended and to ascertain whether any modifications to the Code should be considered, the Board regularly conducts a variety of surveys of how the rules of the Code are applied in practice. The most important of these is its examination of Code companies' corporate governance reports, which it has carried out every year since the original version of the Code was introduced in 2005. Eight surveys have now been carried out in this series, using a method that has been largely unchanged from year to year. This provides excellent opportunities for comparison during the whole period since the original Code came into force.

The 2012 survey is particularly interesting, as there have been no changes made to the Code since 2010, so any changes in company behaviour are particularly apparent. In short, the results show that companies maintain a high level of ambition in their application of the Code. One worrying finding was that the number of explanations of non-compliance with good information content was considerably lower than in previous years. A new development in 2010 was that the content of the corporate governance reports and companies' websites was examined against the background of legal and Code requirements. Previous years' surveys revealed that companies still had some work to do in order to fulfil all requirements concerning detailed information. This year's survey shows that there is still much to be done.

A detailed account of the 2012 survey can be found later in this annual report.

Revised takeover rules

In 2010, the Board took over the role of the now-defunct Swedish Industry and Commerce Stock Exchange Committee, (NBK), in issuing rules governing generally accepted principles in the Swedish securities market, including the NBK's rules regarding takeovers. The existing rules had been in place on the NASDAQ OMX Stockholm and NGM markets since 1 October 2009; Equivalent rules for the First North, Nordic MTF and AktieTorget trading platforms were introduced on 1 January 2010. Against the background of developments regarding takeovers in the United Kingdom, the Board felt that it was time to conduct a new review of the rules. Furthermore, the Swedish Securities Council had issued a number of statements on takeovers since the previous review of the rules, and these needed to be incorporated into the regulatory framework. This review began in July 2011 and was concluded on 20 February 2012, when the Board submitted its proposals for new takeover rules to NASDAQ OMX Stockholm and NGM. The new rules were adopted by the exchanges and came into force on 1 July 2012. On the same date, a revised version of the rules for takeovers on the First North, Nordic MTF and AktieTorget trading platforms came into force. As with the previous version of the regulations, these takeover rules are largely identical to those of the NASDAQ OMX Stockholm and NGM Equity exchanges, but also include a self-regulation version of the rules in the takeovers legislation, as this law does not apply to these trading platforms.

Referrals etc.

A key role of the Board is as a referral body for legislation and the work of committees of inquiry in the field of corporate governance, both concerning the development of rules in Sweden and various forms of regulatory initiative from the EU.

The referral work of the Board has increased each year, not least with regard to regulations from the EU. This is because the European Commission has been intensifying its work to expand and harmonise regulation of corporate governance within the European Union in the wake of the economic crisis. This has led to a series of recommendations, green papers, action plans and proposed directives on various aspects of corporate governance in different sectors in the past three years.

In 2012, the Board provided written comments on proposed changes to prospectus rules, new rules for auditing in financial institutions and directives on gender quotas on the boards of listed companies. The Board has also submitted opinions to the Swedish Ministry of Justice on the proposed directive and regulation concerning auditors and auditing presented by the European Commission. Additionally, the Board has submitted opinions regarding the European Commission's online survey of European corporate governance, both to the Ministry of Justice and to the Commission, as well as a direct response to the European Commission regarding a survey on gender quotas, (see below).

So far in 2013, the Board has submitted comments on proposed changes to rules concerning direct placements in listed companies. As the Ministry's memorandum contains a proposal that the Board should issue rules in this area, the memorandum is discussed in more detail below. The Board has also submitted comments on a proposed directive concerning non-financial reporting, which is also discussed in more detail below.

All of the statements and formal comments can be found on the Board's website, www.bolagsstyrning.se.

Gender quotas on the boards of listed companies

Gender quotas on the boards of listed companies have been under discussion at EU level for a number of years, and in the spring of 2012, the European Commission presented a web-based survey on the issue, which the Board answered in May 2012. After compiling the responses, the Commission returned with a proposed directive without any proposals on gender quotas, but with regulations on affirmative action when appointing board directors, equivalent to those that apply to recruitment to certain positions. The Board is highly critical of this proposal, not least because it is not of the opinion that only listed companies are an appropriate target group for the new rules, as the Board believes that the gender issue is not primarily a question of better corporate governance of listed companies, but of gender equality in the corporate sector. Furthermore, the form of the proposed directive is more or less impossible to apply within Swedish company law. The Board submitted its formal comments to the Swedish government in December 2012.

After this round of comments, the future of the Commission proposal on gender quotas is uncertain, not least because the EU's legal service has concluded that there are no grounds in the EU constitution for the commission to issue rules on this matter. There are, however, no obstacles to the introduction of quota rules at national level, for example of the kind found in Norway. In the Perspectives section of this annual report, there is an article on the gender quotas issue written by Professor Karin Thorburn.

Proposed new corporate governance rules for financial institutions

In 2011, the European Commission presented a proposed directive with amended rules concerning capital requirements for banks and other financial institutions, CRD IV. These rules also contained proposals for new corporate governance rules – board composition, number of assignments for individual board directors etc – for these institutions. Even though these financial institutions do not form part of the Board's target group, the Board felt it ought to comment on the corporate governance issues, as there was a major risk that regulation in this sector could lead to similar rules for listed companies. The Board therefore submitted comments on these rules to the Swedish Ministry of Finance, and these were repeated in the Board's response to the Commission's proposals for revised regulations for financial instruments, MiFID II, which contained equivalent corporate governance rules for securities firms etc.

When the implementation of CRD IV began in 2012, the Board was invited to assist in the process. The Board's Executive Director was appointed to assist the board of inquiry with his expertise in June 2012, and its report is expected to be presented after the summer of 2013.

Action plan on corporate governance in listed companies and company law

The road to the action plan on corporate governance in stock exchange listed companies and company law presented by the European Commission in December 2012 was a long one. Already in January 2011, the Board wrote a position paper in an effort to influence the proposed regulations on corporate governance that Michel Barnier, Commissioner for Internal Market and Services, had announced in late 2010 would be contained in the Commission's green paper on corporate governance in listed companies. On 5 April 2011, the European Commission presented its green paper on a framework for corporate governance in the EU.

The Swedish Ministry of Justice then requested comments on the green paper, and the Board submitted a response to the Ministry on 20 April 2011. In short, the Board's position was that no further need for regulation of corporate governance for listed companies had been shown by the Commission and that the level of detail in the proposed rules, particularly those concerning boards of directors, where existing Swedish rules in principle already regulate the issues the green paper addresses, was far too great. The Board advocated a more principles based regulation instead of the detailed compromise proposals presented by the Commission, which are poorly suited to the circumstances of Sweden and many other European countries. It is the view of the board that there is no evidence in the green paper that further regulation is required, not least against the background of the financial costs of new rules for the companies concerned, as well as the reduced competitiveness in relation to companies from non-European countries and companies with other ownership models, such as private equity, that would result from further regulation. The Board therefore opposed the majority of the proposals in the green paper.

The Board then produced a separate formal response to the green paper, based on these opinions, to the European Commission on 17 July 2011. This was followed by intensive lobbying in Brussels.

In light of the extensive criticism of the proposals in the green paper from many member states, the Commission decided not to present any concrete proposed regulation during the autumn of 2011 as it had planned. Instead, an open web-based consultation on company law in the EU at the start of 2012, which the Board duly answered. When the responses to the consultation had been compiled, along with the formal comments received on the green paper, the Commission issued a coordinated report on how it intends to proceed with both corporate governance and company law in general in the form of the current action plan.

The action plan consists of three main areas: enhancing transparency; engaging shareholders; and improving the framework for cross-border operations of EU companies.

The section on enhancing transparency includes a number of different proposals. The first of these is the introduction of a requirement to report on diversity on the board and on how the company manages non-financial risks. The proposal is to be implemented through amendment of the Accounting Directive, and a proposal for such an amendment has recently been issued. The Board has submitted a formal response to the proposal to the Swedish government, expressing support for the requirements concerning CSR reports. However, the Board does not believe that the proposal concerning disclosure of diversity policy should be implemented.

Further, the Commission promises initiatives to improve companies' corporate governance reporting in 2013, especially with regard to the quality of explanations provided by companies that depart from corporate governance codes. This could be achieved through a recommendation on the subject. As part of its legislative programme in the field of securities law, the Commission plans to propose an initiative to improve the visibility of shareholdings in Europe. The aim of this is primarily to help listed companies to identify their shareholders. Another initiative concerning company shareholders is a requirement for institutional investors to disclose their voting and engagement policies and to disclose how they have voted on various issues at different shareholders' meetings.

The section on engaging shareholders contains proposals on increasing shareholder oversight of company remuneration policies. Shareholders would also be granted better oversight of related party transactions, i.e. dealings where the company contracts with its directors or controlling shareholders. Sweden has long had such regulations. Rules stating that the shareholders' meeting is to decide on remuneration policies are to be found in the Swedish Companies Act, and rules on related party transactions, previously included in the stock markets' regulations, are now contained in the Swedish Securities Council's statement 2012:05.

There is also a proposal to regulate proxy advisers, as many companies have expressed concern about a lack of transparency in the preparation of their voting advice. Another concern is that proxy advisers are subject to conflicts of interest, as they may also be acting simultaneously as consultants to investee companies. The European Securities and Markets Authority, ESMA, has presented its conclusions and recommends that no legislative measures be taken. Instead, the sector should regulate itself by adopting internal guidelines. The ESMA report suggests what such guidelines should contain. The Commission would also like to examine more closely the meaning of the concept 'acting in concert' so that rules which use this term do not prevent shareholder cooperation on corporate governance issues. There is also a proposal on encouraging employee share ownership.

The section on improving the framework for cross-border operations of EU companies consists of six separate proposals, all of which affect member states' company law:

- enabling companies to transfer their registered office across borders,
- improving the mechanism for cross-border mergers,
- enabling cross-border divisions,
- creating a legal form for European SMEs (small and medium sized enterprises),
- promoting and improving awareness of the European Company (SE) and the European Cooperative (SCE) Statutes,
- increasing transparency to investors on the issue of a group's structure and recognition of the concept of 'group interest' in the company law of member states.

As well as these main sections, the Commission states that it intends to initiate a codification of all major company law directives into a single instrument.

The Commission plans to implement all of these measures before the present Commission's mandate ends in October 2014, which must be regarded as a very ambitious plan.

International and Nordic work

As in previous years, the Board was an active participant in international debate on corporate governance issues in 2012, with the aim of promoting Swedish interests and increasing knowledge and understanding of Swedish corporate governance internationally. The Board took part in several consultation meetings with representatives of the European Commission, both formal meetings organised by the Commission and informal meetings within the European Corporate Governance Code Network, ECGCN, a network of national corporate governance committees of EU member states, of which the Board is a member.

ECGCN is in the process of launching a shared website, with links to the corporate governance codes of all EU member states, as well as to the most recent monitoring and analysis reports of each country. ECGCN is not a formal cooperation, but the European Commission has granted it the status of a special group to consult on corporate governance issues within the community.

Another new initiative during the corporate governance year was a renewed Nordic cooperation. The Norwegian equivalent of the Board, NUES, invited representatives of the code issuing bodies in Denmark, Sweden, Finland and Iceland to a two day seminar in Oslo in March 2013. The intention is that these meetings will continue to be held, with the venue rotating among the Nordic countries.

Key issues for 2013

Continued monitoring of the European Commission action plan on corporate governance and other regulatory issues

As the action plan generates concrete proposals from the Commission, these will need to be scrutinised and commented upon by the Board. The board intends to be active in influencing the content of the rules as much as possible. As can be seen from the above summary of the action plan, there will be a large number of initiatives in many different areas. During the implementation phase, some of the rules are likely to be referred to the Board.

The issue of quotas on the boards of listed companies is still high on the agenda, and at the moment, it is impossible to predict what will happen, either within the European Commission or at national level.

Continued Nordic cooperation and exchange of ideas and knowledge with other European corporate governance code issuers

The Board will continue to cooperate with other European rule issuers through ECGCN, the network of national corporate governance committees of EU member states, not least as this provides direct access to the EU officials responsible for designing proposals on corporate governance matters.

The board also looks forward to continued cooperation and discussion within the Nordic region. A common Nordic platform when submitting comments on the European Commission's proposals can be stronger and carry more weight than the views of the individual countries.

Review and evaluation of the Code

The most recent update of the Swedish Corporate Governance Code was carried out in spring 2010, and it is high time to conduct a new review of the rules of the Code, even those which are not affected by the work of the European Commission, in order to examine whether there is a need for any adjustments, whether any rules should be removed and whether new rules ought to be added. The Board has also issued three instructions which should be integrated into the Code.

In order to learn more about which issues and areas the Board should examine more closely, a number of round table discussions have been planned with Code users – shareholders, board directors, company executives, corporate advisers and other people involved in the work of corporate governance. It is estimated that these discussions will be concluded by the start of the autumn, when the Board will begin working on any changes deemed necessary. It is too early to say whether a revised version of the Code can be applicable from January 2014 or whether changes will be implemented later that year.

Private placements in listed companies

As mentioned above, the Board has taken over the tasks of NBK to promote generally accepted principles in the Swedish securities market by issuing rules on what is to be regarded as constituting acceptable practice. One such issue is facilitating access to capital in stock exchange listed companies. Various people and bodies have claimed that Swedish regulations are too rigid when compared internationally, which limits Swedish listed companies' access to capital.

The Ministry of Justice Memorandum Ds 2012:37 on increased share capital for listed companies contains some proposals to facilitate access to capital through private placement of shares, convertibles or warrants. The memorandum proposes certain changes to the Companies Act in order to remove a preparatory statement that in normal circumstances forbids private placement offers to people who are already shareholders in the company. It also states that the Swedish Securities Council's accepted practice, primarily its statement 2002:2, which is based on the preparatory statement, should also be changed. The conclusion of the memorandum is that implementation of these changes will mean that the Swedish rules on this matter will not differ significantly from equivalent rules in other European countries. The major difference compared with the rest of Europe, however, is the way companies and their owners regard shareholders' preferential rights and how they therefore act.

The memorandum suggests that the Board produce a recommendation on accepted stock market principles for private placements in listed companies in order to remove uncertainty that presently exists regarding these rights, thereby improving the conditions for efficient and competitive access to venture capital. The issues that are expected to be covered are in what circumstances private placements can be used and on what conditions they should occur. The Board has appointed a small internal working group to examine the issue, and this group is expected to report before the summer on how it intends to conduct this work.

II. APPLICATION OF THE CODE IN 2012

The Board conducts regular surveys and analysis in order to monitor how the Code is applied and to evaluate its functionality and effects on Swedish corporate governance. As in previous years, the Board commissioned a study of each Code company's application of the Code based on information published in annual reports and corporate governance reports. For the third consecutive year, the content of corporate governance reports has also been analysed in relation to the requirements of the Code and legislation. Another new aspect two years ago was an analysis of the corporate governance information on companies' websites, and this analysis was carried out again this year. New items in this year's survey were an examination of the information value of nomination committees' statements explaining their proposed candidates to the board of directors, as well as boards' reporting of remunerations and of reports on internal controls. The survey was carried out on behalf of the Board by Nordic Investor Services. The results are summarised below.Also in this section, there is a presentation of the Swedish Securities Council's and the stock exchange disciplinary committees' approaches to Code issues.

Companies' application of the Code

Executive summary

The most recent review of the Swedish Corporate Governance Code took place in 2010, which means that the results of this year's survey can be directly compared with those of the previous two years. As in previous years, companies have shown a high level of ambition when it comes to applying the Code, even though a trend towards poorer quality of reporting on many matters can be detected. There are still many shortcomings in the details of how companies report on their corporate governance in their corporate governance reports and on their websites. Far too many companies fail to provide all the information that is required by the Annual Accounts Act and the Code. There is therefore still a great deal of room for improvement.

The number of deviations from the Code is no longer falling, but the number of companies reporting deviations continues to fall, (while a small number of companies report more deviations than previously). Such a development can be interpreted both positively and negatively. The development is positive in as much as the rules of the Code are being respected and the standard of corporate governance reporting by listed companies should therefore have improved. However, the development is negative against the background of the Code's aim to make companies reflect and bring transparency to their corporate governance. The comply or explain principle on which the Code is based assumes that corporate governance is something fundamentally individual to each company, and even if the behaviour of companies means that they apply the majority of the rules in the Code, there should be a large number of individual solutions that are more suitable for individual companies than the standard methods prescribed in the Code. If companies feel that they must adapt their behaviour in order to comply with the Code, innovation and initiative may be stunted, to the detriment of the individual company and its shareholders.

A major change for the worse when comparing the results of this year's survey with previous years' is the information value of explanations of non-compliance and other mandatory statements, where the percentage of informative explanations has decreased significantly. As stated below, part of the explanation for this may be higher expectations on the part of those surveying the reports, but along with the slight deterioration of detailed reporting from companies compared with previously, this is a signal to the Board that it should consider taking action.

Aims and methods

The aim of analysing how companies apply the Code each year is to provide information in order to assess how well the Code works in practice, and to see whether there are aspects of the Code that companies find irrelevant, difficult to apply or in some other way unsatisfactory. The results of the annual surveys provide a basis for the continued improvement of the Code.

Since 2011, the survey also examines companies' application of the rules concerning the reporting of corporate governance and internal controls, as well as auditor review of these reports, which were introduced into the Companies Act and the Annual Accounts Act in 2010. The aim of this part of the survey is to build up a picture of how companies report their corporate governance.

The basis for the study is companies' own descriptions of how they have applied the Code in the corporate governance reports that are required by the Annual Accounts Act, in other parts of their annual reports and in the information on their websites. For the past two years, the survey has also examined whether the corporate governance information on companies' websites fulfils the requirements of the Code and whether corporate governance reports contain all the necessary formal details. No attempt is made to ensure that the information provided by the companies is truthful and accurate.

As in previous years, the target group for the study was the companies whose shares or Swedish Depository Receipts (SDRs) were available for trade on a regulated market and who were obliged to issue a corporate governance report as of 31 December 2012. Stock Exchange rules state that companies whose shares are traded on a regulated market run by the exchange are to adhere to generally accepted principles in the securities market, which includes applying the Swedish Corporate Governance Code.[1] Up to and including 2010, foreign companies were not obliged to apply the Code. Following an instruction issued by the Board, from 1 January 2011, foreign companies whose shares or SDRs are traded on a regulated market in Sweden are required to apply the Swedish Corporate Governance Code, the corporate governance code of the company's domicile country or the code of the country in which the company has its primary stock exchange listing.[2] If the company does not apply the Swedish Code, it is obliged to issue a statement explaining in which significant ways the company's behaviour does not comply with the Swedish Code in or together with its first corporate governance report after 31 December 2011.

On 31 December 2012, there were 265 companies whose shares or SDRs were available for trade on a regulated market in Sweden. Of these, 253 were listed on NASDAQ OMX Stockholm and 12 on NGM Equity. Of those listed on NASDAQ OMX Stockholm, 22 were foreign companies, as was one of the companies listed on NGM Equity. Of these 23 foreign companies, eight NASDAQ OMX companies have declared that they apply the Swedish Code, and these eight were therefore included in the survey. The remaining 15 companies, who have declared that they apply another code, were not included in the survey. Five of these apply Canadian corporate governance rules, two apply the Finnish code, two apply

Table 1. Number of surveyed companies

	2012		2011		2010		2009		2008		2007	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
NASDAQ OMX Stockholm	253	95%	249	94%	232	92%	236	90%	246	88%	115	100%
NGM Equity	12	5%	15	6%	20	8%	25	10%	32	12%	0	0%
Total target group	265	100%	264	100%	252	100%	261	100%	278	100%	115	100%
Excluded *)	18	7%	16	6%	13	5%	8	3%	32	12%	9	8%
Total companies surveyed	247	98%	248	94%	239	95%	253	97%	246	88%	106	92%

*) Companies excluded due to non-application of the Swedish Code, different financial year, annual report / corporate governance report not available or company no longer listed.

1) See Point 5 of NASDAQ OMX Stockholm's Regulations for Issuers and Point 5 of NGM's Stock Exchange Regulations 2010.

2) See Board Instruction 2-2010, which can be found on the Board's website.

American corporate governance rules, and two apply the British code, with one each applying the corporate governance codes of Luxemburg, Denmark, Switzerland and Poland.

As well as these 15 foreign countries, three companies, two listed on NASDAQ OMX and one on NGM Equity, were omitted from the survey, because their fiscal year does not follow the calendar year, because they had not published their annual report for 2012 by the survey deadline of 30 April 2012 or because they were no longer listed on the stock exchange. This meant that the number of companies actually included in the survey was 247, of which 236 were listed on NASDAQ OMX Stockholm and 11 on NGM Equity. See Table 1.

Companies' reports on corporate governance

The Annual Accounts Act states that all stock exchange listed companies are to produce a corporate governance report.[3)] The content of the corporate governance report is governed by both the Annual Accounts Act and the Code.[4)] According to the Code, any company that has chosen to deviate from certain rules in the Code must report each deviation, along with a presentation of the solution the company has chosen instead and an explanation of the reasons for non-compliance.

As in previous years, all of the companies surveyed submitted a formal corporate governance report, which is mandatory by law. Ten companies chose to publish their corporate governance report on their websites only, compared with eight companies in the previous year. [5)] Of the vast majority of companies which include their corporate governance report in the printed annual report, around 60 per cent now include it in the directors' report, while the remainder published their corporate governance report as a separate part of the annual report. See Table 2 below. This shows a trend towards more and more companies choosing to include their corporate governance reports in their directors' reports. In 2010, these companies were in the minority, last year they made up around half, and this year a majority of companies include their corporate governance report in the director's report.

According the Annual Accounts Act, a corporate governance report is also to contain a description of the key

Table 2. How is the corporate governance report presented?

	Number				Percentage			
	2012	2011	2010	2009	2012	2011	2010	2009
In the directors' report in the annual report	141	126	106	5	57%	51%	42%	2%
A separate report within the annual report	96	110	125	235	39%	44%	50%	93%
Only on the website	10	8	7	12	4%	3%	3%	5%
Unclear	0	4	14	1	0%	2%	6%	0%
Total	247	248	252	253	100%	100%	100%	100%

Table 3. Is there a separate section on internal controls and risk management?

	Number					Percentage				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
Yes	234	245	234	244	215	95%	99%	98%	97%	87%
No	5	3	4	8	31	2%	1%	2%	3%	13%
Partly	8	0	0	0	0	3%				
Total	247	248	238	252	246	100%	100%	100%	100%	100%

3) See chapter 6, section 6 and chapter 7, section 31 of the Annual Accounts Act, (1995:1554).

4) See chapter 6, section 6 and chapter 7, section 31 of the Annual Accounts Act, (1995:1554) and rule 10. 1-2 of the Code.

5) This does not contravene the Annual Accounts Act or the rules of the Code. The Annual Accounts Act states that companies whose shares are traded on a regulated market are to produce a corporate governance report, either as part of the directors' report or in a document that is not part of the annual report. In the case of the latter, a company may choose to release its report either by submitting it to the Swedish Companies Registration Office together with the annual report or by only publishing it on its website. (The report must in fact always be made available on the company's website.) If the corporate governance report is not contained in the directors' report, the company may choose whether to include it in the printed annual report – this is not regulated by law or by the code.

elements of the company's internal controls and risk management concerning financial reporting.[6] Five companies failed to provide an internal controls report this year, while it must be regarded as unclear whether a further eight companies fulfilled the requirement. See Table 3 below. This is a higher figure than in previous years. As the Annual Accounts Act makes it a legal requirement for companies to report on their internal controls, it is remarkable that five companies have not done so. The internal controls reports vary in their scope, from short summaries within the corporate governance report to separate reports. For the first time, the Board's survey has assessed the information value of internal controls reports, and the results, illustrated in Table 3a below, show that more than ten per cent of the companies have significant work to do.

Since 2010, auditor review of corporate governance reports is now mandatory according to the Companies Act and the Annual Accounts Act.[7] See Table 4 below. Six companies have not reported that their corporate governance reports were reviewed by their auditors, and for a further six companies, it is not clear whether such a review took place. Five of these twelve companies were not Swedish, which may explain some of the non-compliance. For the seven Swedish companies that have not reported clearly that auditor review took place, it must be asked whether this means they have broken the regulations by failing to review or simply failed to report the review, which in itself is a breach of the Code.[8] The proportion of corporate governance reports that were reviewed in detail by the company auditors was around 30per cent, while the rest were subjected to a general review. See Table 5 below. As the assessment of which form of review took place was conducted slightly differently this year than in previous years – last year it was assumed that all corporate governance reports that were included in directors' reports were reviewed in detail – it is difficult to know whether this is a decrease compared with 2011.

Table 3a. Information value of the internal controls report

	Number 2012	Percentage 2012
Good	40	16%
Acceptable	177	72%
Insufficient	28	11%
Not applicable	2	1%
Total	247	100%

Table 4. Was the corporate governance report reviewed by the company auditor?

	Number		Percentage	
	2012	2011	2012	2011
Yes	235	238	95%	96%
No	6	5	2%	2%
No information / unclear	8	5	3%	2%
Total companies	247	248	100%	100%

[6] See chapter 6, section 6, paragraph 2, point 2 the Annual Accounts Act, (1995:1554) and rule 7.5 of the Code.

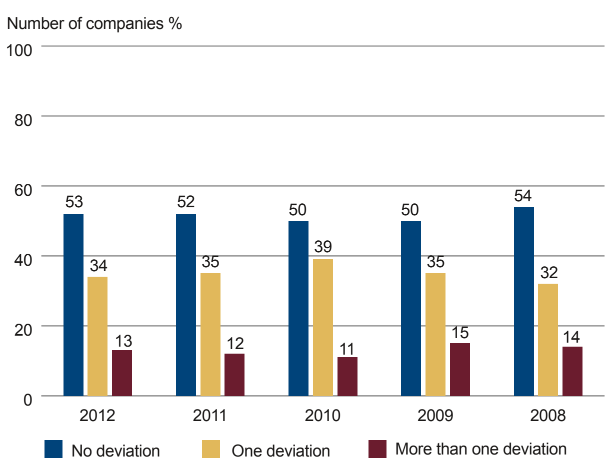
[7] The requirement for auditor review of a corporate governance report if it is included in the director's report or of the information otherwise published in the company's or group of companies' director's report can be found in chapter 9, section 31 of the Companies Act (2005:551). The requirement for the auditor review of the corporate governance report to be published separately from the annual report can be found in chapter 6, section 9 of the Annual Accounts Act.

[8] Rule 10.3, paragraph 1 of the Code states that companies are to make the auditor's report on their corporate governance report available in the corporate governance sections of their websites.

Table 5. How was the corporate governance report reviewed?

	2012	Percentage	2011	Percentage
General review	161	65%	93	38%
Detailed review	73	30%	145	58%
Unclear	13	5%	10	4%
Total	247	100%	248	100%

Diagram 1. Companies per number of instances of non-compliance



2010: 239 companies 2009: 253 companies 2008: 246 companies
2005–2007: Average 90 companies

Reported non-compliance

Companies that apply the Code are not obliged to comply with every rule. They are free to choose alternative solutions provided each case of non-compliance is clearly described and justified. It is not the aim of the Board that as many companies as possible comply with every rule in the Code. On the contrary, the Board regards it as a key principle that the Code be applied with the flexibility afforded by the principle of comply or explain. Otherwise, the Code runs the risk of becoming mandatory regulation, thereby losing its role as a set of norms for good corporate governance at a higher level of ambition than the minimums stipulated by legislation. It is the Board's belief that better corporate governance can in certain cases be achieved through other solutions than those specified by the Code.

Diagram 1 shows the proportion of surveyed companies that have reported instances of non-compliance since 2007. The proportion of companies that reported more than one instance of non-compliance remained at 13 per cent in 2012, meaning that the remaining 87 per cent of companies reported no more than one deviation from the Code rules. It is notable that of the 32 companies reporting more than one deviation, two companies reported two instances, eight companies reported three instances and the remaining 22 reported two, which means a higher total of deviations from Code rules. The proportion of companies reporting a single deviation from the Code fell to 33.5 per cent, which continues the downward trend. More than half of the surveyed companies, 53 per cent or 132 companies, reported no deviations at all in 2012, which is an increase compared with previous years.

A total of 160 deviations from 26 different rules were reported in 2012, which gives an average of just under 1.4 deviations per company reporting at least one deviation. This is an increase of eight per cent compared with 2011.

A detailed breakdown of reported non-compliance is shown in Table 6 below.

Table 6. Reported non-compliance

	2012	2011	2010	2009	2008
Company reports no deviations	132	129	118	125	133
Company reports one deviation	83	88	94	89	79
Company reports more than one deviation	32	31	26	38	34
Total	247	248	238	252	246
Number of companies reporting deviations	115	119	120	127	113
Number of companies reporting no deviations	132	129	118	125	133
Number of companies surveyed	247	248	238	252	246
Percentage of companies reporting deviations	47%	48%	50%	50%	46%
Number of reported deviations	160	153	162	182	171
Number of rules for which deviations reported	26	23	26	25	28
Average number of deviations per rule	6.15	6.65	6.23	7.28	6.11
Average number of deviations per company	1.39	0.72	0.72	0.72	1.51

Which rules do companies not comply with?

Table 7 shows the number of deviations per rule from which deviation has been reported since 2009. The numbers correspond to the rule numbers in the current Code, with rule numbers from previous versions of the Code also shown for reference purposes. The five rules for which the most companies report non-compliance, see Diagram 2, (which contains the six most explained rules), are commented on in brief below.

As in previous years, the rule with by far the most instances of non-compliance was Code rule 2.4. Almost 20 per cent of all Code companies report some kind of deviation. The rule states that members of the company board may not constitute a majority on the nomination committee and that the chair of the board may not be chair of the nomination committee. If more than one member of the board is a member of the nomination committee, only of member may have a dependent relationship to major shareholders in the company.

The most common form of non-compliance with this rule was that the chair of the board, or in some cases another member of the board, was appointed chair of the nomination committee. The most common explanation for this was that the person concerned was a major shareholder and/or deemed to be the most competent and therefore considered best suited to lead the work of the committee. In some cases, more than one of several members of the board who were on the committee were not independent of major shareholders, and in a small number of companies, members of the board formed a majority on the nomination committee. Non-compliance with this rule is most common in companies with a strong concentration of ownership, often with the general explanation that it would otherwise be difficult or impossible for a private individual to combine the roles of major shareholder and active owner through participation on the board and on the nomination committee.

The rule with the second-highest frequency of non-compliance was again rule 7.3, concerning audit committees. Of the companies surveyed, 20 chose to appoint an audit committee with just two members rather than the three members required by the Code, all stating that they did so because the board is small and/or because it is considered that this is the most efficient way to carry out the tasks of the audit committee. It should be noted that companies are not obliged to appoint an audit

Diagram 2. Instances of non-compliance per Code rule

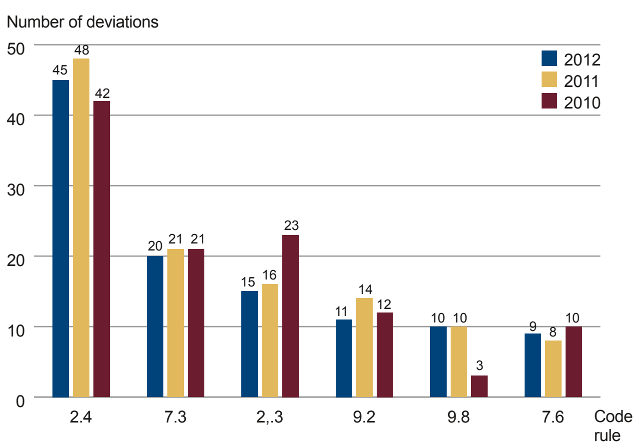


Table 7. Number of deviations from individual Code rules

Rule	2012	Rule	2011	Rule	2010
2.4	45	**2.4**	48	**2.4**	42
7.3	20	**7.3**	21	**2.3**	23
2.3	15	**2.3**	16	**7.3/10.1**	20
9.2	11	**9.2**	14	**9.2/9.1**	11
9.8	10	**9.8**	10	**7.6/10.4**	10
7.6	9	**7.6**	8	**2.5**	8
2.1	9	**2.1**	7	**9.1**	7
2.5	9	**2.5**	7	**2,1**	7
4.2	5	**4.2**	5	**4.2**	6
4.4	4	**7.5**	4	**1.1**	4
9.1	3	**4.4**	2	**9.8 (new)**	3
7.5	3	**4.3**	2	**7.5/10.3**	3
1.5	3	**1.5**	1	**1.5**	2
4.3	2	**2.6**	1	**2.6**	2
1.1	2	**4.1**	1	**1.7**	1
4.1	1	**6.2**	1	**10.3/11.3**	1
8.2	1	**8.2**	1	**9.9 (new)**	1
1.4	1	**9.3**	1	**9.7 (new)**	1
1.3	1	**1.3**	1	**9.6 (new)**	1
3.1	1	**3.1**	1	**7.1**	1
4.5	1	**1.1**	1	**3.1**	1
8.1	1			**2.2**	1
9.5	1			**6.1**	1
9.6	1			**4.4**	1
9.9	1			**9.5 (new)**	1
				4.3	1
Total	160	**Total**	153	**Total**	162

committee. According to the Companies Act, the board of directors may perform the duties of the committee.

Rule 2.3 was again in third place in 2012. This rule concerns the size and composition of nomination committees, primarily with regard to committee members' independence. In the majority of cases, the non-compliance involves the CEO and/ or other members of the company's executive management being members of the nomination committee. The explanation given for this is that they are also major shareholders in the company. In a small number of cases, the nomination committee consisted entirely of representatives of the largest shareholder in terms of voting rights, so that company did not comply with the rule that states that at least one member of the committee is to be independent in relation to the largest shareholder. Some nomination committees did not fulfil the Code requirement that they must comprise at least three members.

Eleven companies reported non-compliance with rule 9.2, regarding the establishment and composition of remuneration committees. In most cases, this involved the CEO or another person that could not be considered independent in relation to the company and its executive management being on the committee. Also here, the most common explanation is that these individuals' competence or investment holding in the company justified their membership of the committee. It is notable that just one company reported non-compliance with the current rule 9.1, concerning the tasks of the remuneration committee, which was earlier a part of the previous rule 9.1. However, these reported deviations are from companies reporting that they did not have remuneration committees, which is not considered a deviation according to the Code and therefore does not require an explanation. Rule 9.2 states that the entire board may perform the duties of the remuneration committee if the board feels that this is appropriate, providing that board directors who are also members of the executive management do not participate in the work.

The Code rule with the fifth greatest number of deviations, rule 9.8, concerns incentive programmes. Of the ten companies that reported non-compliance, half report that the vesting period of an incentive programme is shorter than the Code's requirement of three years. The other half concern the award of share options to members of the company board.

A number of explanations were provided for Code rules that have not been subject to non-compliance in previous years. These include the requirement that severance packages are not to extend further than one year, (rule 9.9), the failure to provide a ceiling for variable remunerations to company executives, (rule 9.5), the failure to perform an annual evaluation of the work of the company board, (rule 8.1) and the requirement that the nomination committee's proposals are to be presented in the notice of the shareholders' meeting, (rule 1.4). Each of these deviations has been explained clearly. More remarkable is that one company has deviated from the independence requirements contained in Code rule 4.5 by having only one member of the board who is independent of the company's major shareholders.

Explanations of non-compliance

The standard of explanations of non-compliance is crucial to the success of a corporate governance code based on the principle of comply or explain. The definition of what constitutes good quality in such explanations is for the reports' target groups to assess, primarily the companies' owners and other capital market actors. However, in order to be useful as a basis for such evaluation, the explanations must be sufficiently substantive, informative and founded as much as possible in the specific circumstances of the company concerned. Vague arguments and general statements without any real connection to the company's situation have little information value for the market.

Last year's survey report showed some flaws in the quality of this information, primarily with regard to actually providing explanations for reported non-compliance. The information value of the explanations given had improved, though there was still a high proportion of explanations with poor information. This seems to be an international problem for this kind of corporate governance code. The European Commission focuses on this issue in its action plan on corporate governance, which is discussed elsewhere in this annual report. The action plan highlights the solution introduced into the Swedish Code in 2008, namely that each instance of non-compliance should not only be explained, but a description of the alternative solution should also be provided.

Swedish companies' reporting of non-compliance has improved to a certain extent since 2011. In total, 15 companies, including one that did so twice, failed to explain their reasons for deviating from a rule, which is the same percentage as in 2011. However, all but two of the surveyed described their alternative solutions, which is a marked improvement compared with last year, when fourteen companies neglected to provide a description of an alternative solution. This means that a total of 17 companies failed to fulfil the Code's requirements regarding the reporting of non-compliance, which is a significant improvement compared with the 23 companies which failed to do so in 2011. This still means that as many as almost seven per cent of the companies surveyed do not appear to apply the Code correctly and therefore do not fulfil the stock exchange requirement to observe good practice on the securities market.

As in previous years, an attempt has been made to assess the quality of explanations offered. This necessarily involves a large element of subjectivity, but as the evaluation has followed the same format and criteria each year, any trends observed can be regarded as reasonably reliable. It should be noted, however, that the bar for what is considered a good explanation tends to be raised each year, partly as the general quality of corporate governance reporting improves, and partly because those evaluating the reports have been faced with so many explanations over the years that they tend to be better at seeing through flimsy explanations and appreciating short but substantive explanations.

The 2010 and 2011 surveys showed a significant improvement in information quality. Unfortunately, this positive trend was broken in 2012. That the 2012 survey found insufficient information value in 17 per cent of explanations is not a large increase compared with last year, but the proportion of explanation found to provide good information value fell from 50 per cent to 15 per cent, which is a dramatic shift. See Table 8 and Diagrams 3 and 4 below. It is to be hoped that this trend does not reflect a genuine worsening in the quality of corporate governance reporting and that it can be explained, at least in part, by a stricter assessment by those who have conducted this year's evaluation.

Diagram 3. The information value of explanations, number

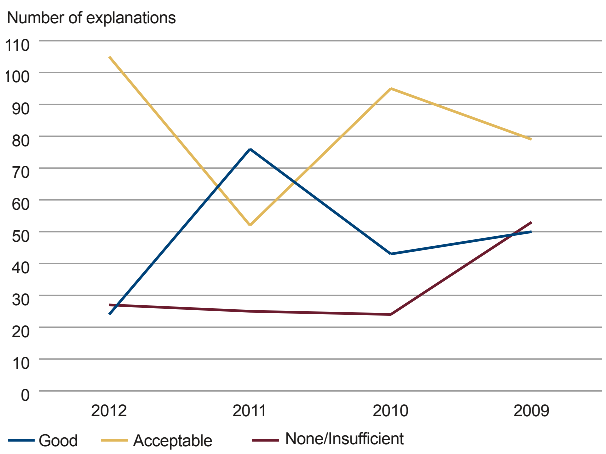


Diagram 4. The information value of explanations, trend

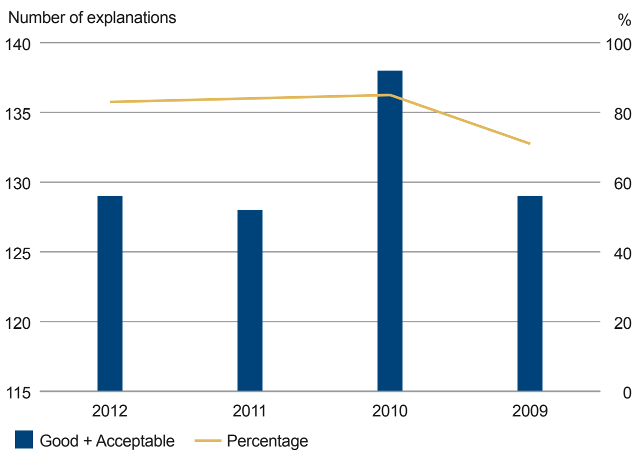


Table 8. The information value of explanations of non-compliance

	Number of explanations				Percentage			
	2012	2011	2010	2009	2012	2011	2010	2009
Good	24	76	43	50	16%	50%	27%	27%
Acceptable	105	52	93	79	67%	34%	58%	43%
None/Insufficient	27	25	24	53	17%	16%	15%	29%
	156	153	160	182	100%	100%	100%	100%

The content of corporate governance reports

For the second consecutive year, the content of companies' corporate governance reports has been examined against the background of the requirements stipulated in the Annual Accounts Act and the Code. The Act requires, for example, that companies report which corporate governance code they apply. Every company but one of those surveyed stated that it applied the Swedish Corporate Governance Code. A general review of the reports also showed that companies seemed to fulfil all the requirements set out in the Act.

Compliance with the detailed requirements of the Code concerning information[9] was not quite as good – see Table 9 for details. Each of the 247 surveyed companies must provide information on 22 specific details. On average, the companies provided 91 per cent of the required information, while 9 per cent was either missing or too vague. This result is an improvement on that in last year's survey, in which just over 10 per cent of the information was missing or incomplete.

Some results stand out more than others, e.g. over 30 companies did not state who had appointed members of their nomination committees, while 66 companies do not report the previous professional experience of their chief executive officers.

Another Code requirement is that companies who have been found to have committed breaches against the rules of the stock exchange or generally accepted principles in the securities market by the Stock Exchange Disciplinary Committee or the Swedish Securities Council during the financial year are to report this in their corporate governance report. The few companies to which this rule applied did not comply with it in 2012.

Corporate governance information on company websites

For the third year, an analysis of corporate governance information on company websites was carried out. Whereas corporate governance reports describe the past financial and corporate governance year, (the corporate governance year is not a legal term, but applies to the time between two annual general meetings), the information on company websites is to be up to date, i.e. it is to be updated within seven days of any change.[10]

Rule 10.3 of the Code requires companies to devote a separate section of their websites to corporate governance information. This requirement was fulfilled by 97 per cent of the companies surveyed. Seven companies

Table 9. The detailed content of corporate governance reports

	Yes	No	Partly
Does the report contain information on the nomination committee?			
Composition	233	13	1
Representation	206	36	5
Does the report contain information on board members?			
Age	245	1	1
Educational background	233	10	4
Professional experience	189	54	4
Work performed for the company	245	1	1
Other professional commitments	238	7	2
Shareholding in the company	244	2	1
Independence	231	12	4
Year of election	245	2	0
Does the report contain information on the board?			
Allocation of tasks	243	0	4
Number of meetings	243	4	0
Attendance	238	6	3
Does the report contain information on board committees?			
Tasks & decision-making authority	205	17	25
Number of meetings	165	59	23
Attendance	153	59	35

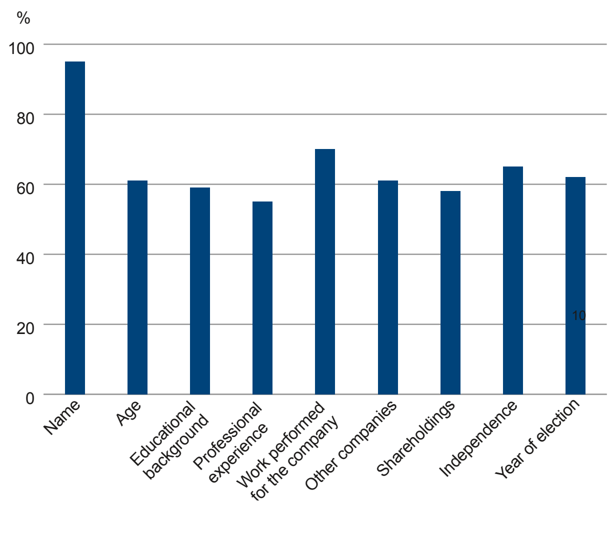
	Yes	No	Unclear
Does the report contain information on the CEO?			
Age	241	6	0
Educational background	220	27	0
Professional experience	181	66	0
Professional commitments outside the company	145	102	0
Shareholding in the company	242	5	0
Shareholding in adjacent companies	12	235	0

9) Code rule 10.2.
10) See Code rule 10.3, paragraph 2.

had no such section on their websites at the time of the survey, while a further 59 were regarded as fulfilling the requirement but with certain reservations.

A new question in last year's survey concerned how easy it is to find corporate governance information on company websites. This assessment is subjective, but the hope is that an annual follow-up of this issue based on the same criteria will at least allow an examination of trends. The results of this year's survey of this area can be found in Table 10 below, which shows that just under 40 per cent of the companies surveyed have easily accessible information, which is a lower percentage than last year. As many as seven per cent of the companies did not fulfil the accessibility criteria at all, while the standard for the remaining 53 per cent was acceptable. This indicates that there is room for significant improvement.

Diagram 5. Content of the nomination committee's proposal regarding individual candidates to the board



Code rule 10.3 contains a list of information required on the corporate governance sections of websites. As well as the company's three most recent corporate governance reports and the auditor's written statements on the corporate governance reports, the company's articles of association are also to be posted. Five companies did not fulfil the latter requirement, while the articles of association of the remaining 242 companies were accessible on the company website, which is in line with the results of last year's survey. Additionally, the Code requires companies to post information regarding the current board, the CEO and the auditor. This requirement was not fulfilled by all companies. See Table 11 for more detailed information.

Nomination committees are also required to fulfil certain information requirements. The Code also requires the nomination committee to present information on its candidates to the board on the company website when notice of a shareholders' meeting is issued.[11] Even if companies fulfil this requirement, their information on candidates is not complete – see Diagram 5. At the same time as issuing the notice of meeting, the nomination committee is also to issue a statement referring to the requirement in rule 4.1, that the proposed composi-

Table 10. Is corporate governance information easy to find on the company's website?

2013	Number	Percentage
Yes	94	38%
Acceptable	136	55%
No	17	7%
Not applicable	0	0%
Total	247	100%

Table 11. Detailed information on company websites

2013	Yes	No	Partly	Total	Percentage
Current board members	246	0	1	247	100%
Current CEO	236	7	4	247	96%
Current auditor	224	22	1	247	91%

2012	Yes	No	Partly	Total	Percentage
Current board members	246	2	0	248	99%
Current CEO	238	5	5	248	96%
Current auditor	226	21	1	248	91%

[11] See Code rule 10.3, paragraph 2.

tion of the board is appropriate according to the criteria set out in the Code companies and that the company should strive for gender balance. Last year, almost a third of the companies surveyed failed completely or partly to issue such a statement, and the figure for this year is similar. The Corporate Governance Board finds it remarkable that almost a third of companies did not fulfil, completely or partially, the requirements of a Code rule that has been in force since 2008, and improvement is necessary. Even more remarkable is that almost 80 per cent of the nomination committees did not mention gender balance in their nominations to the board, something that was examined specifically in this year's survey. If nomination committees do not take the hotly debated issue of gender equality seriously, they run the risk of being presented with legislation on quotas. One of the aims of the introduction of the relevant Code rule was to avoid quotas and instead allow nomination committees to explain how they had handled the issue of increasing the ratio of women on boards and bring the issue into focus.

The information value of these statements was examined for the first time two years ago. This year, the assessment has been divided up further to look separately at the issues of appropriate composition and gender equality. On the issue of appropriate board composition, there was a marked decline in the information value of statements compared with last year. In 2012, the information value was deemed good in less than half of the statements, while the equivalent figure this year has fallen to 17 per cent – see Table 12. Only 6.5 per cent of statements on the proposed gender balance on boards were regarded has having good information value, while over 40 per cent of the statements issued (the total number of which was too few, as described above), were regarded as substandard – see Table 13.

Table 12. Nomination committee statements on appropriacy of board composition

	Number			Percentage of statements			Percentage of companies surveyed		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Good	31	89	323	17%	48%	19%	13%	34%	13%
Acceptable	132	77	126	72%	42%	73%	53%	29%	50%
Unacceptable	20	18	14	11%	10%	8%	8%	7%	6%
Total: statement issued	**183**	**184**	**172**	**100%**	**100%**	**100%**	**74%**	**70%**	**68%**
Not applicable	58	64	63				23%	24%	25%
Not assessed	6	16	17				2%	6%	7%
Total	247	264	252				100%	100%	100%

Table 13. Nomination committee statements on gender balance on the board

	Number of companies 2013					Percentage 2013				
	Yes	No	Partly	Not applicable/ not assessed	Total	Yes	No	Partly	Not applicable/ not assessed	Total
Statement on gender balance	37	195	9	6	247	15%	79%	4%	2%	100%

	Information value 2013				Information value 2013 (percentage)			
	Good	Acceptable	Un-acceptable	Not applicable	Good	Acceptable	Un-acceptable	Not applicable
Information value of gender balance statements	3	24	19	195	1%	10%	8%	81%

Rule 10.3, paragraph 2 of the Code requires companies to declare all share and share price related incentive programmes for employees, (not just the management), and board members. More than half of those surveyed published no information regarding such programmes on their websites. To a certain extent, this may be because some companies do not have such programmes, but that half of the companies surveyed would have no current share and share price related incentive programmes seems a very high proportion.

A new requirement in the revised Code that came into force in 2010 is that companies issue a description on their website of any variable remuneration programmes for the board and executive management, (though there is no requirement to issue information on variable remuneration programmes for other employees). Here there has also been a decline compared with last year, when 70 per cent of the companies surveyed published such information. This year's survey shows that 150 companies, around 60 per cent of the total number, did so. It seems unlikely, however, that 40 per cent of listed companies have no variable remuneration for executives and directors, so improvement is required here.

Finally, company websites are to provide information on the board's evaluation of remuneration within the company no later than two weeks before the annual general meeting.[12)] The evaluation is to cover ongoing variable remuneration programmes for executives and directors and those that have ended during the year, how the company's executive remuneration guidelines have been applied, and the current remuneration structures and remuneration levels within the company. This requirement was introduced in 2010 and the information was included in the survey for the first time in 2011. Table 14 shows that there has been no change in the level of reporting of these matters since last year, i.e. around 60 per cent of the companies surveyed fulfil this requirement. It must be regarded as unacceptable that as many as 40 per cent of the companies surveyed do not publish any evaluation or neglect to leave the evaluation in place on their website after the annual general meeting.

If the board's evaluation is to provide any information to investors and other actors, it ought to include some form of value judgement by the board regarding the various evaluation points. In previous year's the Corporate Governance Board's study has only examined the percentage of value judgements, but from this year, the information value of the evaluations will also be assessed according to the same template as the other evaluation documents in the survey. As Table 15 shows, most companies are not as informative towards their investors as one might wish.

Table 14. Information on company websites regarding the board's evaluation of remuneration matters

2012	Yes	No	Partly	Not applicable	Total
Variable remuneration programmes	114	114	10	9	247
Remuneration policy	133	101	4	9	247
Remuneration structures and levels	114	121	3	9	247

Table 15. Information value of board evaluations of remuneration matters

2012	Good	Acceptable	Un-acceptable	Not applicable	No information
Variable remuneration programmes	15	81	28	113	10
Remuneration policy	6	109	23	100	9
Remuneration structures and levels	3	103	14	118	9

[12)] See Code rule 10.3, paragraph 3. Code rule 9.1 states that the remuneration committee, (or the board in its entirety if no such committee has been appointed), is to perform this evaluation.

Interpreting the Code

The Swedish Corporate Governance Board is the body that sets norms for self-regulation in the corporate governance of Swedish listed companies, but it does not have a supervisory or adjudicatory role when it comes to individual companies' application of the Code. The Board occasionally receives questions on how the Code is to be interpreted. Although it tries as much as possible to help companies understand what the rules mean, it is not the Board's responsibility to interpret how the Code is to be applied in practice. This is the responsibility of the market, after which the Board assesses how the Code has actually been applied and considers any adjustments that may be required as a result.

However, the Swedish Securities Council, whose role is to promote good practice in the Swedish stock market, is able to advise on how to interpret individual Code rules. This occurs when companies who would like advice on interpretation ask the Council to issue a statement.

The disciplinary committees of the NASDAQ OMX Stockholm AB and Nordic Growth Market NGM AB stock markets can also issue interpretations of the Code.

The Swedish Securities Council did not issue any statements on the Code in 2012. The Council has previously issued five statements concerning interpretation of Code rules:

- AMN 2006:31 concerned whether two shareholders were able to pool their shareholdings in order to be eligible for a seat on the nomination committee.
- AMN 2008:48 and 2010:40 dealt with the amount of leeway allowed to a board when setting the conditions of an incentive programme.
- AMN 2010:43 interpreted one of the independence criteria in the Code, which covers board members' independence with regard to clients, suppliers or partners who have significant financial dealings with the listed company.
- AMN 2011:03 examined whether a proposed salary increase for executives conditional on a sustained shareholding in the company needed to be referred to the shareholders' meeting.

Nor did the disciplinary committees of the NASDAQ OMX Stockholm and Nordic Growth Market NGM stock markets issue any interpretations of the Code in 2012, and these two bodies have no tradition of issuing statements regarding interpretation of the Code.

The Corporate Governance Board also issued takeover rules for the First North, Nordic MTF and Aktietorget trading platforms, and the Swedish Securities Council issued several statements on these rules. These statements, however, correspond to the Council's established position regarding the takeover rules issued by the regulating markets, and are therefore not discussed here.

III. PERSPECTIVES

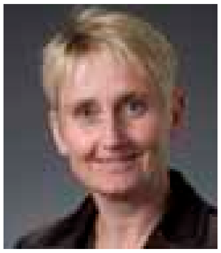
The Swedish Corporate Governance Board's ambition is that its Annual Report not only describes the work of the Board and how the Code has been applied during the past year, but also provides a forum for discussion and debate on current corporate governance issues, both in Sweden and internationally. The Board therefore invites external contributors to publish articles and opinions within the field of corporate governance that are deemed of general interest. The content of these articles is the responsibility of the respective author, and any opinions or positions expressed are not necessarily shared by the Board.

This year's report contains three contributions.

- Women on boards – what does the research say? Karin S. Thorburn, Research Chair Professor of Finance at the Norwegian School of Economics in Bergen, has conducted a detailed analysis of research into this issue, not least against the background of the gender quota rules that were introduced in Norway in 2006 and came fully into effect in 2008. Her conclusions are presented in the first article in this section of the annual report.
- In the second article, Lars Thalén, the Corporate Governance Board's special adviser on communications issues, interviews Christina Stenbeck, Chair of the Kinnevik group, about her views on corporate governance. Ms Stenbeck's work on the boards of companies within the Kinnevik group received great attention during the year, not only in connection with a number of major transactions, but also in connection with her receipt of the Swedish Academy of Directors' Golden Gavel Award for outstanding performance in the role of chair of a company board. Ms Stenbeck offers frank and illuminating answers on general corporate governance issues as well as matters concerning the work of the Kinnevik board and its challenges.
- The section ends with an extremely thought-provoking article by Mats Isaksson, who is Head of Corporate Affairs at the OECD as well as a very active member of the Swedish Corporate Governance Forum. In the article, he discusses what issues he believes rule makers should be interested in if they wish to create future prosperity. Among other ideas, he suggests that rules should not prevent new IPOs of companies and that rules need to be adapted to different owners' business models. These ideas have had a major impact in Europe and are helping to start a new debate on the future of corporate governance.

Women on boards: What does the research say?

It is almost impossible to identify board characteristics that lead to good firm performance because of the difficulty to establish causality. But studies indicate that firms perform better with a higher fraction of female board members, that gender balanced boards may be more efficient monitors of the CEO and that changes in board composition tend to precede changes in executive membership.



Karin Thorburn is the Research Chair Professor of Finance at the Norwegian School of Economics. She was previously at the Tuck School of Business at Dartmouth College, USA. Her research is in the area of corporate finance. She is affiliated with several international academic think tanks, including CEPR and ECGI. In this article, she reviews recent research on women on boards.

On November 14, 2012, the European Commission proposed a new directive for improving the gender balance on corporate boards. Under the proposal, each gender should hold at least 40 percent of the non-executive director positions of large publicly listed firms by 2020. Currently, only one out of seven directors in Europe is female and one-quarter of the large corporations have no woman at all on the board.

The Directive charges firms that fail to meet the 40 percent requirement to select directors based on an objective, comparative analysis of the qualifications of each candidate, using pre-established, clear, neutrally formulated and unambiguous criteria. Given equal qualifications, priority should be given to the underrepresented sex. An unsuccessful board candidate has the right to require disclosure of the criteria, the comparative assessment, and the consideration behind the decision. Firms are asked to annually provide information about the gender representation on the board, and intended actions to improve gender balance. Member states will have to lay down the sanctions for non-compliance. The Directive is a temporary measure and set to expire in 2028.

The proposed gender quota raises two immediate questions. The first is whether forcing female board participation is detrimental to corporate value, or if it has benefits beyond gender equality. The second is whether there is a shortage of board competent women, or if other barriers make a quota necessary to obtain gender balanced boards. In the following, I will shed some light on the first issue by reviewing recent research in financial economics on women on boards.

Evidence on voluntary appointments of female directors

The board of directors plays two important roles: to hire and monitor top management, and to give advice. The relative importance of the two roles is disputed, but after the corporate governance scandals last decade, the monitoring role has been emphasized more. In empirical research, the efficiency of the board's monitoring activities is often measured by the likelihood that the chief executive officer (CEO) is fired when the firm performs poorly, referred to as the performance-sensitivity of CEO turnover. CEO turnover has been shown to be more sensitive to firm performance when the board is relatively small and dominated by outside directors, when directors have equity-based incentives, and when the CEO is not Chairman (which is always the case in Sweden).

If the board gives good advice, this should show up in better firm performance. Nevertheless, it is almost impossible to identify board characteristics that lead to good firm performance. This is because of the difficulty to establish causality, so called endogeneity problems: do certain board characteristics lead to higher firm profitability, or do profitable firms select and attract boards members with certain characteristics?

Several studies document a positive relationship between the fraction of female board members and various measures for firm performance, such as stock returns, return on equity, return on assets, return on invested capital, and sales growth. But as discussed above, it is impossible to make inferences about causality. Are profitable firms more likely to appoint women, and women more likely to accept directorships in profitable firms? Or do female board members really generate improved performance? There are similar issues with studies that report a positive relation between gender diversity and corporate social responsibility, corporate environmental responsibility, and better management practices. Despite the positive association between the fraction female directors and firm performance, one simply cannot conjecture that adding women to the board will lead to improved firm performance.

A look at the Australian stock market's reaction to new outside directors, however, suggests that investors value the appointment of new female directors more than that of male directors. The stock price reaction is significantly higher (approximately 2%) on the announcement of a woman, also when controlling for various director characteristics. Similar results exist for Spain and Singapore. The female directors are more likely to hold an MBA degree and less likely to be CEO than male directors. Firms that select women have bigger and more diverse boards, more equal-opportunity practices in place, and the firm's CEO is not on the nominating committee. Nevertheless, while there is a positive valuation effect of adding female board members, it does not imply that firms choosing a male director would have increased in value by instead appointing a woman.

Evidence from the United States suggests that gender-diverse boards are more efficient monitors. Female directors have better attendance records than male directors, male directors have fewer attendance problems the more gender diverse the board, and women are more likely to join monitoring committees, such as the audit, nominating, and corporate governance committees. The stricter monitoring of gender-diverse boards shows up in a higher likelihood of CEO turnover when the firm performs poorly. In the cross-section, gender diversity is associated with better performance. However, applying advanced econometric techniques to control for endogeneity, it appears that gender diversity increases the value of firms with strong takeover defenses, but reduces the value of firms subject to the market for corporate control. It is possible that gender-diverse boards overmonitor in firms with otherwise good governance, at the expense of giving advice.

A recent study of Israeli government-owned firms finds that gender-balanced boards are more active monitors and associated with better firm performance. These government-owned businesses have traditionally a substantial representation of women (on average 37 percent). The study relies on detailed minutes from board and board-committee meetings, documenting statements made by every participant. Boards with at least three female directors present in the meeting were twice as likely to request further information from management and to take an initiative. At the individual level, both men and women were more active in these meetings. The firms with a critical mass (at least three) of female directors have higher performance-sensitivity of CEO turnover and higher profitability, both in terms of return on equity and net profit margin.

One important effect of female representation on corporate boards could be a spillover to the gender composition of top management. U.S. evidence shows that firms with more female directors also have more female top executives. Importantly, the previous year's share of female directors predicts the fraction of females in top management, but not the reverse. In other words, changes in board composition precede changes in executive membership. This could reflect different preferences of gender-balanced boards in their hiring policies, or a corporate culture that female top executives find attractive.

The Norwegian board gender quota

The limitation of the evidence presented above is that it reflects firms' own choice of board composition. If every firm chooses an optimally composed board, underlying firm characteristics may simultaneously drive both board attributes and firm performance. As a result, one cannot make inferences about the effect of adding female board members to firms that in the first place chose not to appoint women.

This is the reason why the Norwegian board gender quota is so interesting. The quota requires that each gender has at least 40 percent of the board seats in public firms. It came in effect in 2006 and required compliance two years later. A few firms already had a large representation of women at the outset, while the majority of firms were forced to substantially change the gender composition of their boards. The exogenous push for change allows inferences to be made about the potential effects of forced board gender diversity.

Let's first make a few observations on changes in board characteristics between 2002 and 2009. As expected, the fraction of female board members increased from 7 percent to 43 percent. If female directors crowded out more valuable male directors, firms could simply increase the size of the board. This did not happen, however. The average board had 5.5 members in 2002 and 5.3 members in 2009. There was a slight decline in the fraction of directors with CEO experience (from 65 percent to 58 percent) and the average tenure (from 3.0 years to 2.6 years), while the average age increased from 51 years to 52 years. In 2009, the average board member in Norway held 1.9 directorships, compared to 1.4 in 2002.

Some of these changes were associated with different attributes of male and female board members. Incoming female directors were younger than new male directors (on average 46 years vs. 50 years), but somewhat better educated. One-third of the entering women had CEO experience, compared to two-thirds of the men. Male directors held a CEO position as their primary outside occupation more often than female directors (28 percent vs. 16 percent). On the other hand, women were more likely to hold other top management positions, such as Chief Financial Officer (7 percent), Vice President (13 percent), non-executive manager (15 percent), or work as a consultant (14 percent), when they joined the board.

One argument preventing more women from becoming board members is that CEO experience is a necessary qualification. But how important is it that most or all directors have CEO experience? Evidence from the United States shows that the stock market reacts positively when the *first* outside CEO is appointed to the board (compared to other outside directors). However, there is no similar reaction when the second or third outside CEO is appointed to the board. Moreover, the appointment of a CEO is not followed by an improvement in firm performance: there is no increase in operating performance or in the performance-sensitivity of CEO turnover. Also, while better advice should result in improved acquisition decisions, the stock market's reaction to merger announcements does not improve after the appointment of an external CEO to the board. Having interlocking CEOs on the board, however, affect operating performance negatively.[1] Thus, it is hard to argue that the board should be stacked with CEOs.

Another potential issue with a quota is that a shortage of competent female candidates leads to overly "busy" female directors in terms of having a large number of directorships. It is possible that this was a problem in Norway initially. However, in 2012, five years after the quota became binding, there is basically no difference in the number of directorships held by men and women: 83 percent of women vs. 89 percent of men have only one board role; 15 percent (10 percent) hold two to three board positions, and two percent (one percent) sit on four or more boards.

There is some evidence that Norwegian quota firms failed to reduce their workforce after the quota (2006–2009) relative to the pre-quota period (2003–2005) compared to firms not subject to the quota. The control group was either publicly traded firms in Sweden and Denmark, or Norwegian private firms. Relative to the control companies, the quota firms experienced an increase in the employment levels and labor costs, which resulted in a relative decline in the return on equity. A weakness of the comparison is, however, that the post-quota period coincides with the financial crises. Companies in Sweden and Denmark may simply have faced more pressure to downsize than firms in Norway. Another possibility is obviously that female board members are more altruistic and stakeholder oriented than male board members.

This inference receives support in a 2005 survey of directors of publicly listed firms in Sweden. The survey used an established questionnaire (the Schwartz PVQ), which has been shown to successfully predict economic behavior in an experimental setting. Female directors reported significantly different core values than their

[1] If A is sits on the board of the company where B is the CEO, and B sits on the board of company where A is the CEO, the two CEOs are interlocked.

male colleagues. They cared less for power and achievement, and were more benevolent and universally concerned. Women valued independence, stimulation and change more, while men put a higher value on tradition, conformity and security. Contrary to evidence in the population at large, the female directors were slightly more risk-loving than their male counterparts.

So what effect did the Norwegian quota have on firm value? One study finds that firms forced to add a larger number of female directors experienced a drop in their market-to-book ratios between 2002 and 2009 relative to firms that already had female directors. One major issue with this interpretation is, however, that Norwegian companies switched accounting principles (from GAAP to IFRS) in 2005. Since the change in accounting standards have a different impact on the book value of assets across firms, one simply cannot attribute the relative drop in market-to-book to the composition of the board. In addition, this relative drop disappears when controlling for director characteristics, such as age.

In work in progress, I show with two coauthors that investors were neutral to the adoption of the board gender quota in Norway. If investors expected the quota to reduce firm value, the enactment of the quota would trigger a stock price drop at the Oslo Stock Exchange. Running state of the art asset-pricing regressions, however, we find no significant stock-price reaction to announcements of legislative decisions that led up to the quota. In other words, the market didn't really care.

The Norwegian quota applies to public limited companies (ASA), listed and non-listed. It has been pointed out that many non-listed firms chose to change legal form from ASA to AS (private limited company) when the quota was introduced. Firms switching legal form were generally relatively small, young and profitable, with concentrated ownership and few, if any, women on the board. A prominent scholar in Norway interprets this as evidence that these firms took action to avoid a value-reducing change of their boards. Another interpretation is obviously that these male-dominated boards simply didn't want to have any female directors.

In fact, the gender quota may rather have had important spillover effects for large non-quota firms by increasing the pool of visible female directors. Only one-third of the 100 largest firms in Norway are publicly traded. Two-thirds of the largest firms are private and not subject to the quota. The Center for Corporate Diversity reports that these large private firms experienced the biggest increase in female directors between 2004 and 2009. By 2009, the fraction of female Chairs was twice as high for these private firms as for public firms (11 percent vs. 6 percent).

Gender quotas in politics

While corporate board gender quotas are rare, half of all countries in the world have gender quotas in politics. To gain a broader understanding for the potential effects of board quotas, I'll briefly review the evidence on gender quotas in politics. Much of the evidence is from India, where gender quotas were implemented in randomly selected districts in 1993. This allows for a comparison between these districts and the districts without quotas.

One desired effect of a gender quota is to increase the number of female candidates running for office. Indeed, after two terms in office, women are equally likely to rerun for office as men. Quotas further lead to an increase in the female representation in political bodies. This higher representation of women in politics remains after the quota is removed.

Quotas seem to help change attitudes and break down negative stereotypes about women as decision makers. In districts with gender quotas, men were much more likely to associate women with power. After sitting in office for two election periods, women report that they feel competent in their new role.

Making women enter political bodies through quotas also lead to a change in policy outcomes. Districts with gender quotas increase investments in goods favored by women, such as infrastructure for drinking water and sanitation, and education. These districts suffer less from political corruptions and bribes, and there is an increased trust among women in the police force.

Gender quotas also change the characteristics of political representatives. In Italy, for example, the quota led to an increase in the average level of education of politicians.

Recent work from Sweden further shows that gender quotas improve the quality of politicians. In 1993, the Swedish social democrats introduced "every second ladies" on the local party lists. This initiative was undertaken when female politicians threatened to leave the social democratic party and start a separate women's party. After the quota, competition from female candidates led to an increase in the average IQ of male politicians. An alternative quality measure based on income, controlling for education, position, and other income-related characteristics, also shows that the quality of male politicians increased. Interestingly, prior to the quota, districts with the lowest fraction of women had the highest average quality of female politicians. This suggests that the low representation of women was not a result of a shortage of competent women, but rather of some other barriers for women to enter politics.

Should board gender quotas be imposed?

The empirical evidence is inconclusive as to whether adding women to the board is associated with an increase in firm value or not. This makes a board quota a gender equality issue. In Norway, the quota was introduced by the Ministry of Children, Family and Equality. The new EU directive is proposed by Vice President Viviane Reding, Commissioner of Justice, Fundamental Rights and Citizenship.

The changing of corporate boards is slow. Last year, the fraction of female board members in the EU increased from 13.7 percent to 15.8 percent. This is the largest year to year change observed ever. Most of the change came from countries with quota legislation. Spain adopted a quota in 2007. Italy, France, Netherlands, and Belgium adopted board room gender quotas in 2011. The 26 largest Swedish firms had 26 percent female board members in 2012, compared to 27 percent in 2008, and 18 percent in 2003. Sweden ranked number five in Europe in board gender equality in 2012, but is likely to drop over the next couple of years as gender quotas become binding in other European countries.

Is the problem a shortage of qualified women, or is legislation necessary to make change happen? In the United Kingdom, a membership of a prestigious golf club is a four times better predictor of receiving a corporate board position than a top university education. In Norway, there was little change in the board composition until the government adopted the quota law and threatened non-complying firms with liquidation.

Although a valuation effect cannot be established, it appears that boards with a better gender balance take their monitoring role more seriously. The lack of CEO experience has been used as an argument against adding more women to the board, but research suggests that diversity may be more important. The board is a team, where the players contribute with different skills. It is probably not the gender itself that makes a difference, but the resulting mix of people with various backgrounds and perspectives.

In Norway, the quota has become a non-issue. Once a pool of qualified women was identified and market tested, a new gender-balanced equilibrium has been established. When I tell my Norwegian friends that there appears to be a shortage of board competent women in Sweden, they just smile.

Cristina Stenbeck says:

"The nomination committee is the shareholder's most important corporate governance tool"

- The "Leo rules" provide an obstacle when we are starting new companies and should be changed. But the system of A and B shares is a key component of our success.
- Uniform boards have a competitive disadvantage, but quotas must be used with caution.
- The wisdom of removing board responsibility by allowing the AGM to set remuneration levels is questionable.

Cristina Stenbeck has been Chair of Investment AB Kinnevik since 2007. Kinnevik was founded in 1936 and currently has a stack market value of over SEK 175 billion. Cristina Stenbeck, with an MBA from Georgetown University in Washington DC, is the third generation of the Stenbeck family to lead Kinnevik and continue to develop its operations in over 80 countries.

Corporate governance in general

What is, in your opinion, constitutes good corporate governance?

I think the most important things are the ability to exercise shareholder influence, order, allocation of responsibilities and risk management.

Does the Swedish nomination committee process work?

The job of nominating candidates to the boards of our companies is one of my most important tasks, and something I devote a lot of time to. It is a good model. It creates a way of working that is comprehensible and transparent to all shareholders. As principle shareholder, it's important to have a crucial influence on the composition of the board, and the nomination committee process also creates a form of accountability for those of us who have nominated directors.

The nomination committee process will only work as long as the owners appoint competent nomination committee members, however, and I would like to see more shareholders taking the opportunity to not always select people from their own ranks and choose experienced business people instead, for example.

The Swedish shareholders' meeting – is that a forum that should be developed further

We think the shareholders' meeting is very important. We have a lot of small investors whose only chance to form a picture of the executive management and the board is at these meetings. We need to continue to strive to minimise the time spent on formalities so that we can devote more time to talking about how the company is doing, the challenges it faces and so on.

Remuneration issues also take up too much time at the shareholders' meeting. Incentive programmes are necessary, but with all the demands placed on companies these days, they have to devote far too many resources to dealing with formalities. The shareholders' meeting elects a board, and the most important job of the board is to ensure that the company has good management, which includes deciding appropriate compensation and benefits. Of course remuneration levels must be reported, as it is an integral part of the information shareholders need in order to assess whether the board has done a good job, but it is questionable whether the board should be relieved of accountability by making the shareholders' meeting responsible for deciding on remunerations. It also makes it difficult to tailor incentive programmes to particular companies. Today, it is share programmes that are the accepted form, but tomorrow, it may be another kind of programme, and that may not be optimal for each individual company.

Does gender matter in the work of the board? Should Sweden legislate on gender balance on boards of Swedish listed companies?

Gender has no significance at all in the work of boards. Uniform boards, however, have a competitive disadvantage, because the likelihood is that they do not have access to all the experience and competence available. The crucial thing is to elect a board that not only has the required competence and experience, but also has the qualities to ensure that the competence and experience is properly utilised and that the work of the board is both challenging and effective. This places a lot of responsibility on the nomination committee, as it is there that the nomination process takes place and institutional investors have the opportunity to influence the results.

Quotas are another matter entirely. We must ensure that we afford women and men the same opportunities to reach top positions in business and industry. I don't believe that quotas, especially in such a narrow group as listed company boards, would lead to greater equality in society. Quotas, which in fact mean that issues other than competence govern selection, are an extremely blunt instrument that generate costs for those involved and should therefore be used with caution.

Kinnevik has an ambitious CR policy. Should corporate governance also encompass CR (or CSR)?

CR issues are very much a part of corporate governance, but how to work with them is specific to each company. Building positive and sustainable external relationships is an important aspect of the development of a business, and Kinnevik has a clear proprietary policy with regard to CR.

Many of the companies in which we have major shareholdings operate in developing countries, which involves particular risks of corruption and inadequate support for human rights. Detailed risk analysis is carried out regularly and that includes CR issues. Risks vary according to the company, operations and country and involve such issues as geographical risks, environmental impact, political climate, brand protection and supplier risks.

Open communication and good internal control systems lead not only to a sustainable and ethical corporate culture, but also, in the long term, to lower costs and greater business opportunities.

The board has an overreaching responsibility for determining the CR climate in the company, as well as setting standards for acceptable risks, but the real work of risk management is the responsibility of the company management. The job of the board is to ensure that the management has awareness and control of the risks.

Overall, is the Swedish regulatory framework for corporate governance time-consuming, bureaucratic and expensive to apply?

We feel that the "Leo rules" are an obstacle to how we run our business. The Leo rules, which give shareholders in listed companies a say regarding private placements and transfers, were brought in at a time when transparency was poor and listed companies were not in competition with private equity players, for instance, to the same extent. We start many new companies all over the world, either together with local partners or on our own. We almost always need to be able to transfer some ownership to the management or employees in order to provide genuine incentives. It must be possible to compensate employees of listed companies with partnerships in subsidiaries without this needing to be subject to the decisions of a shareholders' meeting. Perhaps there should be a limit to how much of a subsidiary can be sold to employees without needing to refer the decision to a shareholders' meeting, and a reduction of the majority required from 90 to 67 per cent.

The role of the owner in the development of the corporate sector

There is much evidence to suggest that companies which are profitable in the long term are those with long-term, stable owners who are actively involved in the running of their companies. How can we ensure that the strong owners who still remain do not disappear and that we will see more of them in the future?

One way is to have tax rules that promote long-term ownership. Another is to ensure that we don't regulate listed companies to death.

We have actively utilised the opportunities provided by A and B shares, which we see as an important factor in our success. I wonder why many institutional investors are sceptical towards this system. Without this differentiation, there is a risk that companies will be owned by institutions in the long run, and there is no guarantee that those owners will have the long-term perspective required to build competitive firms and create the prosperity we need.

What is your view on the Swedish institutions as active shareholders?
Institutional investors are often a good complement to one or more long-term active shareholders. They often act as guarantors for good order and a degree of control over the major shareholder. In my experience, the Swedish institutions are very professional.

Should there be rules in the Corporate Governance Code, or even a separate code, on proprietary responsibility
Beyond information on what type of shareholder you are, my answer is no. As an investor, you must be allowed to act in the way you yourself see fit.

Kinnevik

Rules for corporate governance can be said to be designed to ensure shareholder influence over the company in the absence of operational owners. Are such rules really necessary for companies with such clear personal owners as Kinnevik?
Yes and no. Some processes, such as the transparency of the work of the nomination committee, are particularly useful for companies like Kinnevik. But the problem of boards dominated by company executives, which we see in places like the United Kingdom, doesn't exist in Sweden or within Kinnevik.

Would it be possible to start up a new Kinnevik today? Would anything need to be changed for it to happen?
That's a difficult question. I hope it would be possible. Perhaps, because of the regulatory framework, it would not happen in a listed environment. The costs of compliance are so great that a non-listed form, perhaps more like a private equity firm, would be more likely.

Do the owning families within Kinnevik collaborate in areas outside the boardroom? If so, in what ways?
I have a strong relationship with both of the founding families and the representatives of the Klingspor and von Horn families. I meet some of them in the context of the board, nomination committees and meetings and others in a shareholder context. We have a mutual appreciation of each other's input. But in the past ten years, I have placed great emphasis on getting to know and understand the expectations of institutional investors such as Alecta. It is vital that all Kinnevik stakeholders feel that they can reach me whenever they wish or need to do so.

As a strong personal owner, do you perceive conflicts of interest in your roles as shareholder and chair of the board? If so, how do you deal with them?
No, but it is essential that we on the board have open and frank discussions on all relevant issues, and it is the responsibility of the board to work in the interests of all the shareholders, both large and small. The Kinnevik board contains a good combination of directors with general competence and broad experience of investing in both entrepreneurs and major corporations and those with experience of leading large organisations. We also have a good balance of independent directors and representatives of the major shareholders.

Corporate governance and today's stock market

Corporate governance rules impact the whole of the economy and must be adapted to changes in ownership and business. This includes an awareness of how the stock market works and the business models of intermediate owners. Effective corporate governance regulation must understand and accept the consequences of the fact that developments in the capital markets control the quality of corporate governance, and not vice versa.

Mats Isaksson is Head of Corporate Affairs at the OECD and one of the founders of the Swedish Corporate Governance Forum, an organisation within the Karl-Adam Bonnier Foundation. The opinions expressed in this article are the author's own, and are not necessarily those of the OECD or its member states.

While debate rages on the issues of executive pay and gender quotas, a new and important discussion on the long-term direction of corporate governance is beginning to gain ground internationally. The discussion focuses on two fundamental issues. The first is the question of the purpose of mandatory corporate governance rules – what is it that politicians and the regulating organs ultimately want and ought to achieve? The other is the question of how the far-reaching changes of the structure and workings of the stock market in the past decade have affected the conditions for active and informed ownership.

The discussion implies that the future direction of corporate governance is at something of a crossroads, and that the choices we make in the next few years will have long-term significance for the dynamism and regenerative capacity of the corporate sector.

Against this background, the OECD started a major project earlier this year under the title "Corporate Governance, Value Creation and Growth". The primary aim of this is not to come up with quick and concrete proposals on "improvements" within the field of corporate governance - there is no shortage of such initiatives – but to use fact-based socioeconomic analysis to discuss the role of politics and the adaptation of corporate governance to a new reality with regard to both ownership and business conditions. The common theme is the regulatory framework's effects on long-term value creation and growth.

When discussing the role of politics and the need for mandatory rules, it is important to differentiate two levels within corporate governance. The first is the daily work in individual companies to create well-functioning routines, establish competent leadership, an efficient organisation, healthy incentives and a positive corporate culture. This work is of course to be built on professional foundations and in the best interests of the individual company. In this work, politicians and regulators seldom have anything to contribute.

The second level touches on the impact of corporate governance regulation on the workings of the economy as a whole, including the long-term efficiency and regeneration capacity of the corporate sector. This is where politicians can, and should, play a part, for instance in the structure of company law, takeover legislation and stock exchange regulations. In this work, legislators face two major challenges that they must address seriously. The first is to assess the general economic consequences of the rules that are to be applied to a range of companies with differing conditions and at different stages of development; the second is to continuously adapt the regulations as the characteristics of ownership and business change. Quite simply, effective rules require a map that corresponds to reality.

The reason for the OECD' s interest is that corporate governance regulation has a crucial significance – positive or negative – on the dynamism and regeneration capacity of business, primarily through its impact on the investment climate. The structure of corporate governance doesn't only affect the total supply of venture capital, but also later parts of the investment chain, such as the distribution of venture capital between different investment alternatives and how invested capital is monitored and used in individual companies.

Looking first at the total supply of venture capital, we can observe a significantly negative trend when it comes to the role of the stock exchanges in supplying venture capital to new and growing companies within the OECD countries. Compared with the 1990s, the average number of new companies seeking to join the stock exchange each year has halved.[1)] In the United States, there was an 80 per cent drop. The volume of venture capital acquired in connection with IPOs fell heavily during this period, from an average of USD 134 billion in 1993–2000 to an average of USD 69.8 billion in 2001–2012.

It is sometimes claimed that the significant decline in the number of IPOs has been compensated for by the emergence of other external forms of finance, the most common example being private equity. There is no doubt that the private equity market has played a vital role in the external financing of companies in the past decade. But if we look at its relative importance, the investment stock from private equity forms formed only around 4% of the global stock market value in 2011. During the years 2001-2011, which was characterised by strong private equity growth and a drastic decline in the number of IPOs, the value of capital raised through private equity transactions was still much lower than the capital raised through IPOs. It is also worth noting that many of the private equity transactions that are registered in the statistics are private to private deals, which do not involve any direct new inputs of venture capital. In 2011, over half of all private equity transactions were of this type. O while private equity firms have come to play a positive role for both capitalisation and corporate governance, it is difficult to support the view that they have been able to compensate for the decline seen in the number of IPOs in terms of volume. Moreover, it must be borne in mind that a functioning venture capital and private equity market is to a certain extent dependent on a well-functioning market for IPOs.

There are of course many explanations for the significant decline in the number of IPOs in the past decade. And we cannot ignore the fact that this development has partly been marked by cyclical factors. The extent of the decline and its potential long-term effects do, however, mean that other, more structural reasons must be considered. Such an analysis must include an examination of the impact of the regulatory frameworks that have been introduced in the field of corporate governance in recent decades, as well as the effects of the far-reaching changes that have occurred in the structure and workings of the stock market. Greater fragmentation of share trading, increased indexation, rapid growth of high-frequency trading and a decline in interest in small and medium-sized enterprises among analysts are some of the reasons that have been raised in the debate.

[1)] For a detailed description of this trend and the calculations and definitions that provide the basis for this article, see "Who Cares? Corporate Governance in Today's Equity Markets" by M. Isaksson and S. Celik, OECD Publishing, www.oecd.org.daf/corporateaffairs/wp

It is hardly surprising that this trend has provoked legislators and markets in the United States and the United Kingdom to examine possible obstacles to IPOs. In the United States, the JOBS Act of July 2012 focuses expressly on simplifying rules and reporting requirements for growth companies with a turnover of up to one billion dollars. And in November 2012, the British Department for Business Innovation & Skills announced a similar initiative in collaboration with the London Stock Exchange, the goal of which was to attract entrepreneurs and growth companies.

Whether these initiatives are sufficient or the right way to go to reverse the current trend remains to be seen. But an important general lesson so far is that the debate (and regulatory framework) on corporate governance all too often assumes that there is a given group of listed companies to regulate. The typical picture is of well-established, traditional, large enterprises with a varied group of owners. The problem with this view is that these companies make up only a small proportion of listed companies. And naturally an even smaller proportion of potential listed companies. What is often overlooked is that corporate governance regulation must also be adapted to the needs of the new, smaller, knowledge-intensive companies that are needed to guarantee future employment and welfare. A well-functioning regulatory framework must take into account the entire "ecosystem" of the economy, where external capital acquisition via the stock market represents just one of many phases in the development of a company. If business owners do not feel that the workings of the stock market and corporate governance regulation serve their aims and the long-term development of their companies, there is a danger that these companies will no longer turn to the stock market for the investment they need in order to expand and grow. And the danger is not only that the growth of companies is restricted. It also brings the risk that households, through different forms of collective investment, e.g. the pensions system, will no longer be able to benefit from the returns and wealth accumulation found in these companies.

When it comes the stock market's role in allocating venture capital, the owners' incentives and capability to perform fundamental analysis are crucial. The existence of a range of qualified and independent assessments of the future prospects of individual companies is a fundamental principle for the efficiency of a market economy. It is against this background that corporate governance regulation places great emphasis on transparency and reporting. But it is not enough that everyone uses the same, generally available information. Investors must also have incentives to collect, process and utilise unique information on individual companies themselves and at their own expense. According to traditional legal and economic doctrine, shareholders are assumed to have this incentive because their returns are assumed to be linked to the profits of the company. The reality is, however, quite different. Ownership today is dominated by a range of intermediate owners with widely differing business models and investment strategies. For many of these intermediaries, fees from savers and market arbitrage are the dominant source of income, rather than the profits of the individual company. And with that kind of business model, it is not always worth investing time and money in analysis and engagement in companies. An important lesson from this for the future design of corporate governance is that the incentives for active and engaged ownership are primarily linked to the institutional investor's business model, competition situation and investment strategy, not to the shareholding per se. *The consequences of the rapid increase in high-frequency trading were summarised nicely by Andrew Haldane, the Executive Director of the Bank of England, who said "Being informed used to mean being smarter than the average bear about the full path and future fundamentals – profits, interest rates, order flow and the like. In a high-speed, co-located world, being informed means seeing and acting on market prices sooner than competitors. Today it pays to be faster than the average bear, not smarter. To be uninformed is to be slow."* [2]

As early as 2009, high-frequency trading comprised almost 60 per cent of all trading in the United States, and, almost by definition, it follows that this type of trading has no use for detailed analysis of individual companies. In addition, we have seen a dramatic increase in Exchange Traded Funds, ETFs. From being a relatively minor phenomenon at the turn of the century, the total value of ETFs in 2011 was 1350 billion dollars. As with other types of indexing strategies, the rapid increase in ETF trading reduces the need for fundamental corporate analysis.

Against this background, it might seem paradoxical that participation rates at shareholders' meetings in both the United States and the United Kingdom are very high. Figures from 2010 show a participation rate of just over 80 per cent in the United States, while it was around 70 per cent in the United Kingdom. The explanation for this is that most institutional investors use proxy advisers to represent them. In the United States, this development is mostly driven by legislation which is commonly interpreted to mean that institutional investors are obliged to exercise their voting rights. It is doubtful, however, whether this requirement for institutions to exercise their voting rights has resulted in better informed and more engaged shareholders. As they do not have a fundamental incentive to vote, they have subcontracted the job. Or as one of the people responsible for these issues at Wells Fargo put it, "since we invest by formula, we vote by formula".[3] This widespread and relatively passive use of commercial proxy voters has sparked a debate on increased rather than decreased passivity among institutional investors. The issue of the danger of greater concentration of power has also been highlighted, since the market for proxy advisers is dominated by a small number of global companies. It has also been noted that conflicts of interest can arise when they not only charge investors for advice prior to shareholders' meetings, but also earn money as advisers to the companies for which they are paid to vote on behalf of the investors.

Not much is to be gained by placing moral aspects on the behaviour of institutional investors. From their commercial perspectives, we must assume that their actions are completely rational. And an effective regulatory framework for corporate governance must understand, and deal with the consequences of, that reality. It is therefore questionable whether stewardship codes of various descriptions would have any practical effect of institutions' willingness and capacity to engage in informed ownership. As mentioned above, the investor's degree of engagement in corporate governance depends first and foremost on its own business model and investment strategy, and not on the shareholding itself. And although differentiated voting rights perform an important function within corporate governance, we should perhaps have limited expectations of proposals to give extra voting rights to "long-term" holdings or the possibility to "buy" voting rights in order to gain greater influence. Voting rights do not give any specific financial compensation for the costs that engaged shareholders have for informed ownership that promotes long-term growth in the company. So in order to stimulate informed and engaged ownership, we should perhaps pay greater consideration on the engaged owners' revenues instead.

Such an approach, in common with many of the challenges I have tried to highlight in this short article, does raise a number of questions concerning the very core issues of corporations and share ownership. But in a world where conditions for ownership and business change fast, there is good reason to leave no stone unturned and to question old and accepted truths in the process of creating tomorrow's regulatory framework for corporate governance.

[2] Haldande, A.G. (2011) The Race to Zero, www.bankofengland.co.uk/publications/speeches.
[3] Lowenstein, L. (1991) Index Investment Strategies and Corporate Governance, The University of Toledo, College of Law, March.

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