SWEDISH
CORPORATE
GOVERNANCE BOARD

Annual report 2015

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Foreword

One of the many advantages of the Swedish corporate governance model and the principle of self-regulation that is central to it is that the responsibility for developing codes and regulatory frameworks lies with people who are not only active in and knowledgeable about the field in question, but that, in most cases, these people work with these issues voluntarily and free of charge. This means that revisions of codes and rules are only conducted when they are needed. This creates an effective stability for those who apply the rules and predictability in the regulations.

Unfortunately, the same cannot be said for the bureaucracy of the European Union. When a group of people is contracted to formulate new and revised rules, they do so for this purpose only. This leads to the kind of regulatory hysteria that the EU has been afflicted with, not least in the field of corporate governance, to the benefit of few but to the detriment of many, providing no competitive advantages whatsoever for the stock exchange listed companies of the European Union. On the contrary, it creates increased bureaucracy and costs, which can only to be to the advantage of companies in places like Asia and North America. The negative effects naturally also have consequences for Swedish self-regulation, to the extent that I am seriously concerned for the future of the Swedish corporate governance model and by extension the prosperous and flexible corporate sector that is so vital to our welfare society.

Swedish self-regulation is currently having to deal with the cannonade of regulations that impact Swedish corporate governance.

The EU seeks to control the details of corporate governance issues, despite its failure to harmonise the underlying corporate legislation concerning the organisation of limited companies. Each member state still has its own corporate legislation regarding organisational models based on factors such as traditions, ownership structures, financing and legal systems. The EU appears to believe that its job is to introduce the Anglo-Saxon corporate governance model for the whole of Europe. The ongoing work to safeguard the Nordic corporate governance model is therefore of crucial importance.

The success of the Nordic model over the decades is described clearly in a fascinating book called The Nordic Corporate Governance Model, which is presented in this annual report.

An important task that the Swedish Corporate Governance Board initiated in 2013 is the review and revision of the Swedish Corporate Governance Code. This work, which is expected to result in a revised and updated Code in 2015, has been conducted in dialogue with the Code's various stakeholders, and we have been met with great interest and enthusiasm at numerous round table discussions, in referral processes and in other dialogues with Code users. We have received a great deal of feedback and many suggestions, but the most interesting conclusions have been how strongly and widely accepted the Code is today and that the most frequent feedback has been "don't make changes to a code that works if there is no need". The stability of a well-functioning code is an asset in itself – something that further highlights the problem of the occasionally absurd number of proposals and directives coming from Brussels.

The single Code revision issue that generated the most interest in 2014 was of course that of gender balance on the boards of listed companies. The issue became so topical for the Corporate Governance Board's stakeholders that we chose to deal with this part of the Code separately and publish the revisions to these Code rules before the rest of the changes. Additionally, we held many information meetings with major shareholders, nomination committee chairs and other key actors throughout the autumn and winter. How this will be reflected in developments in 2015 is unclear at the time of writing, but I would be very surprised if the positive trend we saw in 2014 is not continued.

The Corporate Governance Board also had much to do on the subject of takeover processes in 2014, due to the many bids that took place as a result of increased activity on the stock exchange. We have therefore implemented two revisions to the takeover rules. The Board also issued its first independent recommendation on private placement of shares.

There is of course always room for improvement, and this also applies to a well-functioning system of self-regulation. The Corporate Governance Board will therefore continue to be open to the opinions and ideas of our stakeholders, to monitor developments within our sphere of responsibility and implement the changes and improvements we judge to be beneficial for our users. It is, however, essential that we do not allow individual details stand in the way. The Swedish corporate governance model has played a crucial part in the development of Sweden into one of the leading nations in the world when it comes to the number of successful multinational companies per capita.

Stockholm, June 2015

Arne Karlsson
Chair of the Board

I. ACTIVITY REPORT

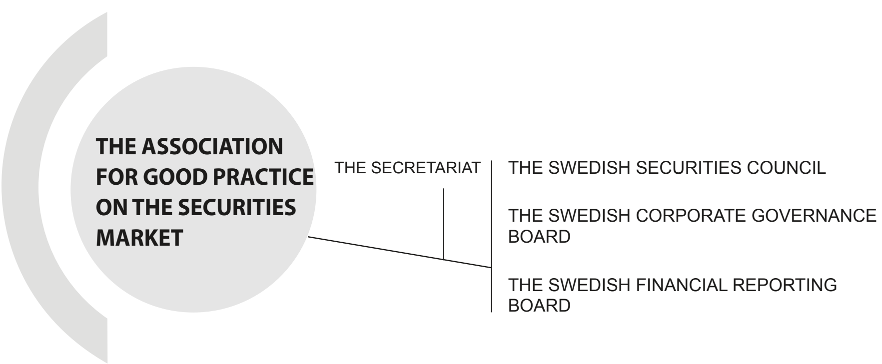
This part of the annual report describes the work of the Board during 2014–2015 and discusses current issues regarding the Code and Swedish corporate governance in general.

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 for more details.

The original and still primary role of the Board is to promote the positive development of Swedish corporate governance, 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 work of the Board in these areas is described separately in this annual report

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 ongoing work to review the Code is also described separately in this report. 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 continued 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 and the Annual Accounts Act 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. 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.

The Work of the Board during the Year

In 2014, the initially Board consisted of Arne Karlsson (Chair), Staffan Bohman (Deputy Chair), Carl Bennet, Peter Clemedtson, Eva Halvarsson, Per Lekvall, Carola Lemne, Annika Lundius Tomas Nicolin, Lars Pettersson and Caroline af Ugglas, as well as Executive Director Björn Kristiansson. Magnus Billing, previously Chief Legal Counsel and since summer 2013 President of Nasdaq OMX Stockholm was a co-opted member of the Board until the beginning of 2014, when he was replaced as a co-opted member by Nasdaq OMX Stockholm's new Chief Legal Counsel, Andreas Gustafsson. Lars Thalén continued to act as a consultant and adviser on information issues. A number of changes then took place at the parent organisation's annual meeting in May 2014. Lars Thalén was appointed as a member of the Board and Eva Hägg was elected to the Board and replaced Carola Lemne, at which point Carola Lemne left the Swedish Corporate Governance Board.

The Board held five 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 and the corporate governance information on companies' websites, which it has carried out every year since the original version of the Code was introduced in 2005.

Previous to this year's survey, nine surveys had been carried out in this series, using a method that was largely unchanged from year to year. This provides excellent opportunities for comparison during the whole period. This year's survey was carried out on the Board's behalf by SIS Ägarservice. Even though the aim was to continue to conduct the survey using largely the same questions and methods as before, the change of survey institute means that comparison with previous years' surveys cannot be achieved entirely. However, the results of his year's survey, which are presented in Section II of this annual report, show that companies maintain a high level of ambition in their application of the Code.

Revision of the Code

As well as its annual examination of companies' corporate governance information, 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 Code was last revised in 2009, and the current version came into force in February 2010. This long period without any changes was justification enough for a thorough review of whether the rules of the Code are still relevant and appropriate. A further reason for a review is the European Commission's continued work in the field of corporate governance, resulting in a number of proposed rules. These include the European Commission's recommendation on the quality of corporate governance reporting, ("comply or explain"), an updated shareholders' rights directive, the directive on non-financial information etc. and the directive and regulations concerning auditors and audits.

The Corporate Governance Board has also issued four Instructions since 2010, the latest of which concerns gender balance on the boards of listed companies, (which is described in more detail below), and came into force as recently as 1 January 2015. These Board Instructions need to be implemented in the Code, as well as the stock exchanges' revised rules.

It was against this background that the Board conducted a number of activities in 2013. Between May and September 2013, the Board met around 40 specially invited people at nine two-hour roundtable discussions to discuss the content and application of the Code and adjacent corporate self-regulation issues, as well as the role and work of the Board. The participants have different roles in the corporate governance process – as board directors, chief executive officers, chief finance officers and legal counsels in listed companies, owners or executives from Swedish institutional investors who sit on nomination committees, representatives of interest groups, advisers etc. Each roundtable meeting was attended by the then Chair of the Corporate Governance Board, Hans Dalborg, and its Executive Director, Björn Kristiansson, as well as two other members of the Board, with each member of the Board participating in at least one roundtable discussion.

The Board also issued an open invitation to anyone who would like to submit opinions and suggestions regarding the Code during the autumn of 2013, either through the Board's website or in meetings with the Chair and the Executive Director, and around ten people took this opportunity.

Additionally, the Board discussed possible changes to the Code at its top-level symposium in February 2014, which was attended by almost 100 people who are active in the corporate governance process. The Executive Director of the Board, Björn Kristiansson, presented the findings of the Board's roundtable discussions and the open invitation to submit comments and suggestions on the Code. This was followed by a panel debate on "How Swedish corporate governance can be improved", featuring Corporate Governance Board member Carl Bennet, the then State Secretary Magnus Graner, Kerstin Hessius, CEO of the Third Swedish National Pension Fund (AP3) and Carl-Henric Svanberg, Chair of the Board of BP.

In addition, the Board discussed in detail the need for revisions to the Code at its scheduled meetings in autumn 2013 and spring 2014.

The roundtable meetings, submitted opinions, individual discussions and the symposium generated a great number of opinions and suggestions on subjects ranging from the work of nomination committees to information reporting and the Corporate Governance Board's role in Europe. A common theme, however, was that the Code should not be changed too much, as it was deemed to work well and enjoys a high degree of legitimacy among companies and investors.

At its meeting on 19 May 2014, the Board appointed an internal working group to prepare proposed revisions to the Code that were felt necessary. A proposed Revised Code was published on 5 June 2015 and is open for comment until 15 September 2015. The Board will compile and analyse all responses before finalising the updated text of the Code, which is likely to be applicable from November 2015.

Gender balance on the boards of stock exchange listed companies

Since its introduction, the Swedish Corporate Governance Code has stipulated that the boards of listed companies are to exhibit diversity and breadth of qualifications, experience and background, and that companies are to strive for equal gender distribution on the board. In their explanations of their proposals and nominations, nomination committees are to consider the Code's rule on gender balance.

In a press release on 20 May 2014, the Corporate Governance Board stated that it considers the pace of change on this issue to be too slow and that many nomination committees fail to live up to the Code requirement regarding gender balance. The Board would like to see owners increase the pace of change and move towards the total share of the least represented gender on boards of listed companies reaching around 40 per cent by 2020. Already by 2017, major companies should have reached an average of 35 per cent and smaller companies should be approaching 30 per cent. The Board therefore listed three strategic initiatives aimed at achieving an acceptable gender distribution on the boards of listed companies as a whole, allowing for variations between companies that may depend on the circumstances of individual cases:

1. Clearer fundamental principles. Good corporate governance means that companies are run sustainably and responsibly on behalf of their shareholders in order to enjoy the confidence of legislators and the general public, and that they are run efficiently in order to attract investment capital. This ensures the Swedish corporate sector's freedom to grow and develop and secures its supply of venture capital and competence. A broader recruitment base provides good conditions for companies to develop in the best way possible.
2. Tighter regulation. Nomination committees are led by shareholders, and they are now required to:
   - analyse the board's evaluation against the requirement for gender balance,
   - explain clearly the thinking behind their proposals concerning candidates to positions on the board with regard to the Code's requirement to strive for gender balance when the notice of the shareholders' meeting is issued,
   - report to the shareholders' meeting on how it has conducted its work to strive for gender balance on the board, making it an agenda item for share holders' meetings.
3. Supporting activities.

During autumn 2014, as part of initiative 3 above, the Chair of the Corporate Governance Board, Arne Karlsson, and its Executive Director, Björn Kristiansson, held meetings with a number of major shareholders and nomination committee chairs in order to discuss the Board's initiatives and future developments.

The Board also engaged SIS Ägarservice to produce statistics on the current situation as of 1 January 2015. This information is available on the Board's website and can be used by anyone wishing to see fair and balanced material to support their calculations regarding gender balance on the boards of Swedish listed companies. The Corporate Governance Board intends to carry out an assessment of gender balance on the boards of listed companies twice a year – at the beginning of January, ahead of the annual general meetings season, and in July, when the annual general meetings season is over.

Rules on generally accepted principles in the Swedish securities market

In its role of promoting generally accepted principles in the Swedish securities market, a role it took over from Näringslivets Börskommitté, the Swedish Industry and Commerce Stock Exchange Committee, the Board is to:

- monitor the application of rules, including those concerning takeover bids,
- 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.

Takeover rules supplemented by rules regarding mergers

As outlined above, the Board is responsible for proposing rules governing takeovers on the Nasdaq OMX Stockholm and NGM markets. The Board itself issues equivalent rules for the First North, Nordic MTF and AktieTorget trading platforms.

In the wake of the Alliance Oil affair, Nasdaq OMX Stockholm asked the Board to propose additions to the takeover rules to apply to mergers and merger-like processes where the offeror company – in the same way as a bidder in a takeover offer – may be a Swedish or foreign company and the offeree may be a Swedish listed company or a foreign company whose shares are traded on a regulated market in Sweden. The reason for this was that the protection of the interests of shareholders in offeree companies is equally relevant whether the process occurs through a public takeover, a merger or some other legal process.

In December 2013, the Board set up a working group under the leadership of Professor Rolf Skog, Executive Director of the Swedish Securities Council, assisted by Erik Sjöman, a lawyer, and Björn Kristiansson Executive Director of the Board. As in previous work to formulate and revise takeover rules, the process took place in close consultation with a broad reference group. The working group's proposed rules were approved by the Board in April 2014. The rules mean that the shareholders' meeting of a listed company to be taken over through a merger or a merger-like process is to approve the takeover by no less than a two-thirds majority, exclusive of the purchasing company's votes. Further, most of the existing provisions in the takeover rules are to be applicable to merger processes in the same way as for takeover bids, e.g. provisions concerning equal treatment and the process. This applies to both Swedish and foreign listed companies. The rules came into force on 1 July

2014, both on the regulated stock markets and on the trading platforms.

The working group was given an extended mandate to allow it to handle proposed changes to the takeover rules in 2014. Against this background, the working group and its reference group continued their review of the takeover rules through the summer and autumn of 2014.

In December 2014, the Corporate Governance Board announced the results of this work in a proposal to revise the takeover rules further, with the new rules being applicable from 1 February 2015.

The main points of the new rules are:

- A ban on offerors requiring offeree companies to fulfil offer-related obligations, e.g. exclusivity or information commitments or binding break-up fee clauses, but with the possibility of exceptions in certain cases, e.g. where obligations improve rather than restrict competition in an offer situation.
- A specific rule stating that offerors are bound by any unconditional statements made by the offeror in relation to the offer, e.g. whether the offer will be increased or extended.

The primary aim of this revision was to strengthen the role of the boards of offeree companies, with a view to improving conditions for competitive takeover bid processes. Similar steps were taken in the United Kingdom a few years ago.

Rules on private placements in listed companies

One of the key issues in the Board's assignment to promote generally accepted principles on the Swedish securities market is the acquisition of capital in listed companies. A number of sources have claimed that the Swedish regulations in this regard are too rigid in an international context, which restricts Swedish listed companies' access to capital.

The Ministry of Justice Memorandum Ds 2012:37 on increased share capital for listed companies contained proposals to facilitate access to capital through private placement of shares, convertibles or warrants. Among other things, it proposed changes to the Swedish Companies Act in order to remove a preamble 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 preamble statement, should also be changed. The conclusion of the memorandum is that implementation of these changes would mean that the Swedish rules on this matter would 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 at shareholders' meetings etc. The memorandum therefore suggested that the Board produce a recommendation on accepted stock market principles for private placements in listed companies in order to remove the uncertainty that presently exists regarding these rights, thereby improving the conditions for efficient and competitive access to venture capital.

The Government Bill that followed, 2013/14:86, proposed no change to the Companies Act, as it was felt that the existing preamble statement could be rendered invalid by a new statement with a different meaning. The Bill therefore repeated its suggestion that the Board produce a recommendation in this regard.

In spring 2014, the Board appointed a working group with eleven participants under the leadership of Board member Tomas Nicolin as chair, Professor Rolf Skog, Executive Director of the Swedish Securities Council, and Björn Kristiansson Executive Director of the Board. In November 2014, the working group submitted a recommendation on private placements in companies listed on Nasdaq Stockholm, NGM Equity, First North, Nordic MTF and AktieTorget. The recommendation is applicable to placements announced on or after January 2015.

The recommendation states that rights issues continue to be the preferred option for cash issues. On condition that it is permissible according to the Companies Act, i.e. it is objectively regarded as in the shareholders' interest to deviate from preferential rights, it is also normally acceptable with regard to generally accepted principles in the stock market that a cash issue deviates from the shareholders' preferential rights. Special attention must be paid, however, to ensure that no unfair advantage to any shareholders occurs that is to the detriment of other shareholders. The recommendation also states that any issue price that is set in a competitive manner is acceptable from the perspective of generally accepted principles in the stock market.

The Board accepts that the recommendation is fairly general in nature. In most cases, however, there should be no doubt about whether a new share issue or private placement is compatible with the recommendation or not, but should any doubts exist, the Board assumes that the matter of whether the share issue contravenes the recommendation will be submitted to the Swedish Securities Council for a ruling. The Board and the Council will monitor developments in this area and the Board is prepared to clarify the recommendation further if necessary.

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, concerning both 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 four years.

In 2014–15, the Board submitted written comments on the European Commission's recommendation regarding the quality of corporate governance reporting, ("comply or explain"), the Commission's proposed changes to the Shareholder Rights Directive and the proposal for implementation of the directive on non-financial reporting. These are discussed in more detail below. In 2015, the Board submitted comments to the Swedish Ministry of Finance on the proposed changes to the disclosure rules in its memorandum on new information requirements on the securities market (SOU 2014: 70). Finally, the Board submitted comments to the Swedish Ministry of Finance on its memorandum on sanctions within CRD IV, which is also presented in more detail below.

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

Action plan on corporate governance in listed companies and company law

As early as 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 Corporate Governance 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 in 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, it launched 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 intended to proceed with respect to both corporate governance and company law in general. This took the form of an action plan on corporate governance in listed companies and company law, which was presented by the European Commission in December 2012.

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 within the board of directors and on how the company manages non-financial risks. The proposal is to be implemented through amendment of the EU Accounting Directive. The Board submitted a formal response to the proposal to the Swedish government in 2013, expressing support for the requirements concerning CSR reports. However, the Board did not believe that the proposal concerning disclosure of diversity policy should be implemented. The amendments to the Directive were implemented by the European Commission in 2014, and in spring 2015, the Swedish government announced a memorandum on companies' reporting on sustainability and diversity policy (Ds 2014:45) with regard to the directive's implementation in Sweden. In its response in March 2015, the Board expressed criticism that the implementation proposal covers a far greater number of companies than the directive requires and was also critical of some of the details in the information requirements. On the matter of the requirement to have a written diversity policy, the Board suggested that companies could use the Code's stipulations regarding the composition of the company's board, Code rule 4.1, as their diversity policy.

In early 2014, two further proposals from the Commission's action plan were revealed. The first was a draft recommendation on corporate governance, aimed at improving companies' corporate governance reporting, especially with regard to the quality of explanations provided by companies that depart from corporate governance codes. The Board duly submitted its views on the proposals to the Swedish Ministry of Justice.

The second initiative took the form of a number of proposed rules, including amendments to the Shareholder Rights Directive and changes to different securities law directives. The aim was to improve the visibility of shareholdings in Europe, primarily to help listed companies to identify who their shareholders are. 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. 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 and their owners. Additionally, there are proposals on shareholder influence on companies' remuneration of executives, "say on pay". The proposals would give shareholders the right to set guidelines for remuneration to the board of directors and the executive management, as well as the right to vote on whether to approve a mandatory remuneration report. Shareholders would also have a greater say on related party transactions, i.e. dealings where the company contracts with its directors or controlling shareholders, by requiring that any such transactions above certain threshold values be approved by the shareholders' meeting. The Board submitted its views on the proposal, primarily on the subject of remunerations, to the Swedish Ministry of Justice.

On 9 April, the Commission presented its recommendation on the quality of corporate governance reporting, ("comply or explain"), and a draft of the amendments to the Shareholder Rights Directive. The latter is still being negotiated within the European Union, and no final version of the proposed legislation has yet been presented. The Executive Director of the Corporate Governance Board has participated in the Swedish government's consultation meetings regarding the government's position in these negotiations.

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, CRD4. 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 Corporate Governance 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. In June 2012, the Board's Executive Director was appointed to assist the committee of inquiry with his expertise, and its report, SOU 2013:65 Stronger Capital Requirements Rules, was presented in August 2013.

In its formal comments on the report's proposals, the Board was critical of the shift from shareholders to the Financial Supervisory Authority with regard to the makeup of a company's board of directors. In the view of the Board, the Authority's task would no longer be to filter out unsuitable individuals according to a number of objective criteria, but to ensure that both individual directors and company boards as a whole have sufficient expertise, experience and so on. Furthermore, the Board felt that a restriction of the number of board assignments a director should be able to have was wrong. The Board also voiced criticism of the proposal to levy administrative sanctions against individuals. The Government took on board the criticism of financial sanctions against individuals and set up a separate inquiry to examine the issue.

The inquiry's findings, which were published in a separate memorandum in 2014, are supported by the Board. In its response to the memorandum on 28 May 2014, the Board declared that the norms of accepted behaviour are defined more clearly and relate to breaches of regulations committed by the company; a subjectivity criteria has been introduced as a precondition for liability; and the sanctions process has become more legally sound as a result of the requirement for the Financial Supervisory Authority to bring its case to the Stockholm District Court in the event that the executive concerned does not accept the sanction imposed by the Authority. Additionally, the memorandum provides guidance that the breach of regulation is to be serious and on the magnitude of the financial sanction.

International and Nordic work

As in previous years, the Board was an active participant in international debate on corporate governance issues in 2014, 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 through its membership of the European Corporate Governance Code Network, ECGCN, a network of national corporate governance committees of EU member states. The 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.

The Board also contributes financially to the EU monitoring work of both StyrelseAkademien, The Swedish Academy of Board Directors, and ecoDa, the European Confederation of Directors Associations. In this way, the Board has access to information about what is in the EU pipeline.

The Norwegian equivalent of the Swedish Corporate Governance 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, and on 12–13 November 2014, a similar meeting was held in Sweden. Over twenty participants from the Swedish Corporate Governance Board and its Danish, Finnish, Icelandic and Norwegian counterparts met to discuss a variety of agenda items. These included the revision of the British corporate governance code, presented by David Styles, responsible for the British Combined Code at the Financial Reporting Council, and a discussion on integrated auditing led by Professor Bob Eccles of Harvard Business School.

SNS study on Nordic corporate governance

The Swedish Corporate Governance Board was also involved in a project run by the Centre for Business and Policy Studies, SNS, entitled The Nordic Corporate Governance Model. The project was presented at the Nordic code issuers' meeting by the project leader Per Lekvall, a member and former Executive Director of the Board and member of the ecoDa Policy Committee. The Board is one of the main financial contributors to the project, and the former chair of the Corporate Governance Board, Hans Dalborg, was chair of the Swedish reference group.

The background to the study and its purpose

The basis for the project's inception was partly an increased need for knowledge about Nordic corporate governance as a result of the rapid internationalisation of the Nordic equity markets over the past few decades, and partly the European Commission's active agenda for harmonisation of corporate governance in the Union since the turn of the millennium. To a large extent, the latter has sometimes led to difficulties in applying the EU level regulations in the Nordic countries, as the Commission has largely chosen to base these on the Anglo-Saxon corporate governance, which differs in significant respects from that which applies in the Nordic Region.

Individually, the Nordic Member States do not wield enormous influence in the internal EU debate on these issues. A description of these countries' corporate governance models as having significant aspects in common would add significantly to the impact of the Nordic region's views in this debate.

The purpose of the study was therefore to analyse the similarities and differences in the Nordic countries' systems of corporate governance, identify the significant common features of these systems and to compile these into a description of a Nordic model of corporate governance. The study is entirely descriptive, i.e. it has aimed to describe the actual conditions in Nordic corporate governance without either striving for greater coordination between the countries or seeking to identify any specific direction for its continued development.

The study was conducted as a corporate governance policy roundtable project within SNS, the Centre for Business and Policy Studies, in Stockholm, Sweden. The main project work was pursued through a pan-Nordic working group made up of two members from each country, i.e. one legal expert focused on corporate legislation and other formal corporate governance regulation, and one management-oriented expert on corporate governance theory and/or practice. The group was complemented by an advisory reference group in each country, made up of highly qualified representatives from the corporate sector and the capital markets. The report was published on 1 December 2014 and has since been the subject of a large number of seminars and conferences, both in the Nordic countries and internationally.[1)]

Is there a common Nordic corporate governance model?

A crucial prerequisite for the study course was obviously that there are sufficient similarities between corporate governance in the Nordic countries for it to be reasonable to speak of a common model. That such is the case is shown clearly by the descriptions of each country's corporate governance model as described in the report. This is based primarily on the following three conditions.

1. Similar regulatory frameworks for corporate governance

How corporate governance is exercised in a country depends primarily on a combination of three factors

- Statutory regulation in the form of companies acts and other laws and mandatory prescriptions issued by the government or its subordinate authorities.
- Self-regulation, mainly in the form of corporate governance codes and stock exchange regulations
- Non-codified rules, norms, values and accepted practice.

In all of these aspects, the Nordic countries display great similarities. Among the main reasons for this are a long tradition of coordination of legislation in the field of corporate governance, a shared strong tradition of self-regulation through codes built on similar principles to those of the majority of other developed countries, closely coordinated stock exchange regulations and largely common core values and practices regarding how companies should be run.

2. Similar ownership structure of listed companies

In an international perspective, all Nordic countries have a highly concentrated ownership of listed companies. See Figure 1. As the illustration shows, more than six out of ten Nordic listed companies have at least one owner who controls more than 20 per cent of the votes and one in five companies is more than 50 per cent controlled by a single shareholder. This can be compared with the situation on the London Stock Exchange, where the corresponding figures are substantially lower.[2)]

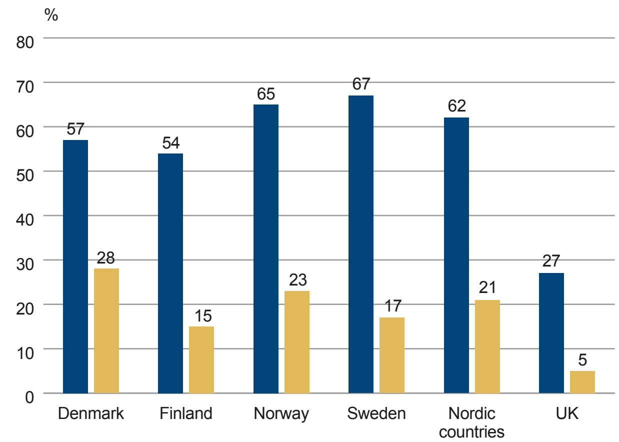
This means that companies controlled by one or a small number major shareholders are more the rule than the exception in the Nordic capital markets, a fact that to a great extent shaped both corporate governance rules and practice in the Nordic countries. At the same time, it should be noted that there is also a significant number of companies – almost four out of ten on a Nordic basis – where no controlling shareholder exists and where the ownership structure is therefore more similar to that which is the norm in British and American listed companies.

[1)] The report can be downloaded free of charge from the SNS website, www.sns.se or from the scientific network SSRN at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2534331. It can be purchased in book form from www.bokus.com or as an e-book from www.kobobooks.com or www.overdrive.com.

[2)] Please note that while the figures for the Nordic countries are based on a review of all the companies listed on regulated markets in the respective countries, the UK figures are based on a sample of companies on the London Stock Exchange Main Market. However, the reported results are well in line with similar summaries reported in the scientific literature in the field.

Figur 1:

Percentage of listed companies with a minimum of one shareholder who controls more than 20 per cent (blue bars) and 50 per cent (yellow bars) of the votes in the company.



Source: Study conducted by SIS Ägarservice for the Nordic CG project.

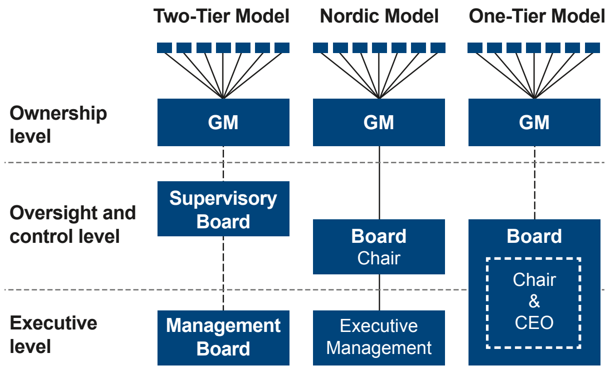
3. A common governance structure, different from that which applies in other European countries

Figure 2 shows a simplified picture of the Nordic governance structure compared with the two dominant systems in Europe, known as the one-tier and two-tier models. In comparison with both of these models, the Nordic model is characterised by such factors as:

- a hierarchical structure in which the board of directors is strictly subordinate to the shareholders' meeting and the executive company body, (in Finland, Norway and Sweden this is the chief executive officer; in Denmark it is the executive management team), is correspondingly subordinate to the board,
- a clear division of tasks and responsibilities between an entirely or almost entirely[3)] non-executive board of directors and a chief executive officer function, (or in Denmark an executive management team), as well as
- strict separation of the roles of chair of the board and the chief executive officer.

Figure 2:

The Nordic governance structure compared to the one-tier and two-tier models.



What are the core features of Nordic corporate governance?

Put very simply, Nordic corporate governance can be described as being based on two basic principles that complement each other as well as being in reasonable balance with each other in order to function well.

On the one hand, it is a strong owner-oriented model that gives major shareholders great power to steer companies in the direction they deem appropriate. This is achieved through:

- extensive powers for a majority at the shareholders' meeting to decide on the company's affairs,
- including the authority to replace the entire board at any time without having to provide specific reasons for doing so,
- a tradition on the part of major shareholders to be actively involved in the governance of the company, including sitting on the board and (in Norway and Sweden, and to an increasing degree in Finland) participating in nomination committees to propose candidates for positions on the board, and
- an auditing function that is independent of the board and management of the company and which is appointed by and reports back to the shareholders at the shareholders' meeting.

[3)] The exceptions are Sweden, where the CEOs of just under 40 per cent of listed companies are members of the board of directors, and Finland, where the corresponding figure is around 15 per cent of companies. In Denmark and Norway, however, the boards of listed companies are entirely non-executive".

On the other hand, this by ownership power is balanced by strong protection of minority shareholders, which limits the scope for majority shareholders to grant themselves financial benefits at the expense of the minority expense. Individual elements of this minority shareholder protection do not always seem unique in an international perspective. Taken together, however, they form a package which has been developed and refined over a long period and which, in an international perspective, appears more effective than perhaps any other in the world.

Overall, the Nordic model can be said to be based on the idea of giving strong principal owners, who usually have a significant proportion of their assets invested in individual companies, a long-term perspective on their investment, as well as incentives, resources and expertise to engage actively in the management of companies and the ability, to a large extent, to control the company in the manner they deem most effective - under the premise that this is for the most part to the benefit of all shareholders, due to a well-functioning protection of minority shareholders. In this respect, the Nordic model is fundamentally different from the Anglo-American ownership model, which features very broad ownership in most listed companies, and where the lack of long-term ownership commitment in companies is perhaps the most burning corporate governance issue right now.

Nordic corporate governance in an international perspective

What relevance could this Nordic model have in a broader international perspective? Firstly, it should be said that this study is by no means an attempt to “export" the model to other jurisdictions. There are many indications that the model is based to a great extent on certain unique Nordic conditions that cannot be expected to exist to the same extent in other parts of the world. This does not prevent some aspects of the model being of interest in a broader context. The Swedish-Norwegian (and partly Finnish) style nomination committees have attracted a certain amount international interest, for example. The same applies the separation of the roles of chair of the board and chief executive officer, which is increasingly being regarded as an international “best practice", as well as, to a somewhat lesser extent, a clearer distinction between the roles of the executive and non-executive functions in a fundamentally one-tier governance structure.

Another burning question is to what extent the Nordic model will be viable in the long term, or whether a gradual alignment with primarily the Anglo-Saxon model is inevitable. There is not sufficient room here to delve further into this question, but in the report of the study, Professor Ronald J. Gilson of Columbia and Stanford Universities shares some interesting reflections on this and related issues.

Key issues for 2015

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

As the action plan on corporate governance 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. The final version of the directive on changes to the Shareholder Rights Directive is expected in summer/autumn 2015 and contains many legislative proposals of interest to the Board, which will seek to influence the Swedish government's implementation of the directive.

Within the field of auditing, there will be a proposal on how to implement the EU regulations and EU directive on auditors and auditing. The Executive Director of the Board has participated actively as an expert on the commission of inquiry on implementation of the regulations and directive, which will present its recommendations in 2015.

The pace of change to the regulations governing the securities market will continue unabated in 2015, including proposals concerning the new abuse of markets directive and regulations, changes to the Transparency Directive and MiFID II, and the Board will maintain its high level of engagement.

Review of the Code

The work to review and revise the Code is described above, and a new Revised Code will be presented before the summer and come into force in autumn 2015. The work does not end there, however. Swedish implementation of the expected EU directives will mean continued revision towards the end of 2015 and in 2016.

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 the Commission's proposals on corporate governance matters.

The Board also looks forward to continued cooperation and discussion within the Nordic region through regular meetings. A common Nordic platform when submitting comments on the European Commission's proposals can have greater weight and impact than the views of the individual countries. The next meeting with Nordic code issuers is planned for Helsinki in autumn 2015.

II. APPLICATION OF THE CODE IN 2014

The Swedish Corporate Governance 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, in corporate governance reports and on company websites. This year, the Board changed supplier, and this year's survey was conducted by SIS Ägarservice, and even though the survey was conducted using the same questions as in previous years, this change means that comparison with previous years' results, especially regarding assessment of the quality of explanations of non-compliance and other statements, is not quite as easy. However, much of the survey concerns whether companies have provided the required factual information, and here the change of supplier has little if any impact. 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

With the proviso regarding comparability because of the change of survey supplier, this year's survey shows that companies' reporting on corporate governance issues has improved further. This means a continuation of the curve of steadily improving corporate governance reporting, with the exception of the 2012 survey, which showed worse results than 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. The shortcomings in the details of how companies report on their corporate governance in their corporate governance reports and on their websites continue to fall in number, but far too many companies still fail to provide all the information that is required by the Annual Accounts Act and the Code. There is therefore still room for improvement.

The number of deviations from the Code fell last year, as has been the case in many years, but this trend has not continued this year. This year's survey shows a higher number of reported deviations at a higher number of companies. Such a development can be interpreted both positively and negatively. The development is positive 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 exist 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. However, the development is negative in as much as the rules of the Code are being respected and the standard of corporate governance reporting by listed companies should therefore be improved.

This year, the survey focused particularly on nomination committees' statements on proposed candidates to positions on the board of directors, not least with regard to the Code's requirement that listed companies strive to achieve gender balance on their boards. There has been a marked improvement since last year's survey. The number of nomination committees that have explained their proposals clearly in relation to the Code requirement on gender balance has more than doubled.

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 has also examined 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 four 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 2014. 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 Corporate Governance 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 actions do not comply with the Swedish Code in or together with its first corporate governance report after 31 December 2011.

On 31 December 2014, there were 275 companies whose shares or SDRs were available for trade on a regulated market in Sweden. Of these, 265 were listed on Nasdaq OMX Stockholm and 10 on NGM Equity. Of those listed on Nasdaq OMX Stockholm, 25 were foreign companies, whereas none of the companies listed on NGM Equity were. Of the 25 foreign companies, seven

Table 1. Number of surveyed companies

	2014		2013		2012		2011		2010		2009		2008	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Nasdaq OMX Stockholm	265	96%	253	96%	253	95%	249	94%	232	92%	236	90%	246	88%
NGM Equity	10	4%	10	4%	12	5%	15	6%	20	8%	25	10%	32	12%
Total target group	275	100%	263	100%	265	100%	264	100%	252	100%	261	100%	278	100%
Excluded*)	23	8%	16	6%	18	7%	16	6%	13	5%	8	3%	32	12%
Total companies surveyed	252	92%	247	94%	247	98%	248	94%	239	95%	253	97%	246	88%

*) Companies excluded due to information not being available, delisting or primary listing being elsewhere.

1) See Point 5 of Nasdaq OMX Stockholm's Regulations for Issuers and Point 5 of NGM's Stock Exchange Regulations.
2) See Board Instruction 2-2010, which can be found on the Board's website.

have declared that they apply the Swedish Code, and these seven were therefore included in the survey. Of the remaining eighteen companies, which were not included in the survey, twelve have declared that they apply another code. Four of these apply Canadian corporate governance rules, two apply the Finnish code, two apply the British code, one applies American corporate governance rules, one the Danish corporate governance code, one the Polish and one the Swiss. Of the other four foreign companies, one was delisted after being bought while three were relisted towards the end of 2014 and have yet to declare whether they apply the Swedish Code or that of another country.

As well as the eighteen foreign countries that were excluded from the survey, six companies, five of which were listed on Nasdaq OMX and one on NGM Equity, were omitted from the survey because their fiscal year does not follow the calendar year, (four companies), they had held their shareholders' meeting late, (one company), or because they were no longer listed on the stock exchange, (one company). This meant that the number of companies actually included in the survey was 252, of which 243 were listed on Nasdaq OMX Stockholm and nine 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. Six companies chose to publish their corporate governance report on their websites only, which is the same number as in the previous year.[5] Of the vast majority of companies which include their corporate governance report in the printed annual report, just under half now include it in the directors' report, while the other half published their corporate governance report as a separate part of the annual report. See Table 2. Last year's trend of increasing numbers of companies choosing not to include their corporate governance reports in their directors' reports has thus continued.

According the Annual Accounts Act, a corporate governance report is also to contain a description of the key elements of the company's internal controls and risk management concerning financial reporting.[6] Only one company failed to provide an internal controls report this year, which is an improvement on last year, when three companies failed to do so. Furthermore, it must be

Table 2. How is the corporate governance report presented?

	2014		2013		2012		2011	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
In the directors' report in the annual report	113	45 %	120	49 %	141	57%	126	51%
A separate report within the annual report	133	53 %	117	47 %	96	39%	110	44%
Only on the website	6	2 %	7	3 %	10	4%	8	3%
Unclear	0	0 %	3	1 %	0	0%	4	2%
Total	252	100 %	247	100 %	247	100%	248	100%

*) Foreign companies with a secondary listing in Stockholm applying the Swedish Code.

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

regarded as unclear whether a further three companies fulfilled the requirement, compared with three last year. See Table 3. The Annual Accounts Act makes it a legal requirement for companies to report on their internal controls. The internal controls reports vary in their scope, from short summaries within the corporate governance report to separate reports. This year, the Board's survey did not assess the information value of internal controls reports. This is something we will return to in future surveys.

Code rule 7.5 states that a company which has not set up an internal audit are to explain the company board's position on this issue and its reasons why in the report on internal controls. Just under 25 per cent of the surveyed companies conduct an internal audit, which is an increase on the 2013 figure. Of the just over 75 per cent of companies that have chosen not to conduct internal audits, the boards of thirteen companies have not provided an explanation for this. See Table 4.

Since 2010, auditor review of corporate governance reports is now mandatory according to the Companies Act and the Annual Accounts Act.[7)] See Table 5. Seven companies have not reported that their corporate governance reports were reviewed by their auditors, and for a further two companies, it is not clear whether such a review took place. Four of these nine companies, i.e. almost half, are not Swedish, which may explain some of the non-compliance. For the five Swedish companies that have not reported clearly that auditor review took place, the question is whether this means they have

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

	2014		2013		2012	
	Number	Percentage	Number	Percentage	Number	Percentage
Yes	248	98 %	239	97 %	234	95%
No	1	0 %	3	1 %	5	2%
Partly	3	1 %	5	2 %	8	3%
Total	252	100 %	247	100 %	247	100%

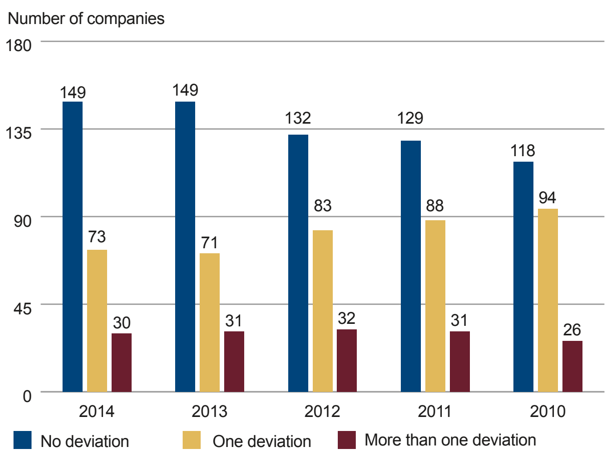
Table 4. If it is clear from the report on internal controls and risk management that no specific auditing function exists, are the board's reasons for this explained in the report?

	2014		2013		2012	
	Number	Percentage	Number	Percentage	Number	Percentage
Yes, reasons presented	181	72 %	181	73 %	171	69%
No reasons presented	11	4 %	14	6 %	17	7%
Partial explanation	1	0 %	1	0 %	2	1%
Unclear	2	1 %	0	0 %	0	0%
Not applicable/ own internal auditor	57	23 %	51	21 %	57	23%
Total	252	100 %	247	100 %	247	100%

Table 5. Was the corporate governance report reviewed by the company auditor?

	2014		2013		2012	
	Number	Percentage	Number	Percentage	Number	Percentage
Yes	243	96 %	238	96 %	235	95%
No	7	3 %	3	1 %	6	2%
No information/ unclear	2	1 %	6	2 %	6	3%
Total companies	252	100 %	247	100 %	247	100%

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



2014: 252 companies 2013: 251 companies 2012: 247 companies
2011: 248 companies 2010: 238 companies

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.

broken the regulations by failing to review or simply failed to report the review, which in itself is a breach of the Code.[8)]

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 Corporate Governance 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.

In light of this, the development shown in Diagram 1 is no longer worrying. Diagram 1 shows the proportion of surveyed companies that have reported instances of non-compliance since 2010. The proportion of companies that reported more than one instance of non-compliance in 2014 was 12 per cent, which is unchanged from 2013. This means that the remaining 88 per cent of companies reported no more than one deviation from the Code rules. The proportion of companies that reported one deviation from the Code rose from 28 per cent to 29 per cent. More than half of the surveyed companies, 59 per cent, or 149 companies, reported no deviations at all in 2014, which is more or less the same as the previous year's figures.

The downward trend of non-compliance had previously continued for a number of years, and to avoid that happening again, the Corporate Governance Board has given a great deal of thought to how the EU recommendation on corporate governance outlined elsewhere in this report should be implemented into the Code. The detailed requirements in the EU recommendation, as well as its wording, signal that compliance with each code rule is desirable, which is not a view shared by the Swedish Corporate Governance Board.

A total of 142 deviations from 21 different rules were reported in 2014, which gives an average of just under 1.4 deviations per company reporting at least one deviation. This is the same average figure as the previous year.

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

Table 6. Reported non-compliance

	2014	2013	2012	2011	2010	2009	2008
Company reports no deviations	149	149	132	129	118	125	133
Company reports one deviation	73	71	83	88	94	89	79
Company reports more than one deviation	30	31	32	31	26	38	34
Total	252	251	247	248	238	252	246
Number of companies reporting deviations	103	102	115	119	120	127	113
Percentage of companies reporting deviations	41%	41%	47%	48%	50%	50%	46%
Number of reported deviations	142	143	160	153	162	182	171
Number of rules for which deviations reported	21	23	26	23	26	25	28
Average number of deviations per rule	6.76	6.22	6.15	6.65	6.23	7.28	6.11
Average number of deviations per company	1.38	1.40	1.39	0.72	0.72	0.72	1.51

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.

Which rules do companies not comply with?

Table 7 shows the number of deviations per rule from which deviation has been reported since 2012. The numbers correspond to the rule numbers in the current Code. The six rules for which the most companies report non-compliance, see Diagram 2, are commented on in brief below.

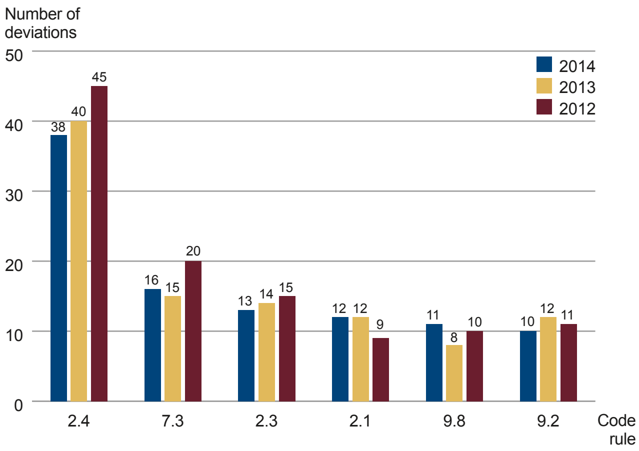
As in previous years, the rule with by far the most instances of non-compliance was Code rule 2.4. Fifteen per cent of all Code companies report some kind of deviation. The rule states that members of the company board may not constitute a majority on the nomination committee and that the chair of the 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.

Table 7. Number of deviations from individual Code rules

Rule	2014	Rule	2013	Rule	2012
2.4	38	**2.4**	40	**2.4**	45
7.3	16	**7.3**	15	**7.3**	20
2.3	13	**2.3**	14	**2.3**	15
2.1	12	**9.2**	12	**9.2**	11
9.8	11	**2.1**	12	**9.8**	10
9.2	10	**9.8**	8	**7.6**	9
7.6	8	**7.6**	7	**2.1**	9
2.5	5	**2.5**	6	**2.5**	9
4.2	5	**4.2**	5	**4.2**	5
4.4	5	**4.3**	4	**4.4**	4
1.5	4	**1.5**	4	**9.1**	3
4.1	2	**7.5**	2	**7.5**	3
4.3	2	**2.6**	2	**1.5**	3
7.5	2	**4.4**	2	**4.3**	2
1.3	1	**4.5**	2	**1.1**	2
1.4	1	**1.1**	1	**4.1**	1
1.7	1	**1.3**	1	**8.2**	1
10.3	1	**1.7**	1	**1.4**	1
4.5	1	**6.1**	1	**1.3**	1
6.1	1	**9.5**	1	**3.1**	1
9.1	1	**9.6**	1	**4.5**	1
9.4	1	**8.2**	1	**8.1**	1
9.9	1	**10.3**	1	**9.5**	1
				9.6	1
				9.9	1
Total	142	**Total**	143	**Total**	160

Diagram 2. Instances of non-compliance per Code rule



The rule with the second-highest frequency of non-compliance was again rule 7.3, concerning audit committees. Of the companies surveyed, 16 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 considered this to be the most efficient way to carry out the work of the audit committee. It should be noted that companies are not obliged to appoint an audit 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 2014. 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.

Twelve companies chose not to comply with rule 2.1, which obliges companies to have a nomination committee. In one case, the particular structure of the company did not allow for the setting up of a nomination committee, whereas in another case, the company was first listed on the stock exchange during the year. The remaining cases involve companies whose major shareholder or shareholders did not deem it necessary to have a nomination committee because of the size of their own holdings. There has been lively debate recently about whether it is compatible with generally accepted principles in the securities market to deviate from such a fundamental Code requirement, but in a purely formal sense the Code does not present any obstacles to companies who wish to deviate from any Code rule they wish, as long as their non-compliance is reported and explained.

The Code rule with the fifth greatest number of deviations in 2014 was rule 9.8, concerning incentive programmes. Eleven companies reported non-compliance with this rule, of which the majority deviated from the requirement that the vesting period is to be at least three years.

Ten companies reported non-compliance with rule 9.2, which has now slipped out of the “top five”. This rule concerns the composition of remuneration committees. In most cases, non-compliance 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.

There were almost no “new” explanations in 2014, i.e. explanations of non-compliance with rules that have previously had no deviation reported.

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 primary aim of the European Commission's recommendation on corporate governance, which is commented upon elsewhere in this annual report, is to improve these explanations, not least by introducing the solution that has been in existence in the Swedish Code in 2008, namely that each instance of non-compliance should not only be explained, but a description of the chosen solution should also be provided.

Unfortunately, Swedish companies' reporting of non-compliance has deteriorated since 2013. Nine companies, compared with seven last year, failed to explain their reasons for deviating from a rule. However, all but one of the surveyed companies, (which also failed to explain the reasons for its deviations), described their alternative solutions, which is more or less in line with last year's result. This means that a total of nine companies failed to fulfil the Code's requirements regarding the reporting of non-compliance in 2014, compared with the seven companies which failed to do so in 2013. This means that around 3.5 per cent of the companies surveyed do not appear to apply the Code correctly and therefore do not entirely fulfil the stock exchange requirement to observe good practice on the securities market.

As in previous years, an attempt has also been made to assess the quality of explanations offered. This necessarily involves a large element of subjectivity. Even though the evaluation has followed the same format and criteria each year, the change of survey institute means that comparisons with previous years are of limited value. Going forward, however, the hope is that 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 or standardised explanations and appreciating short but substantive ones.

Diagram 3. The information value of explanations, number

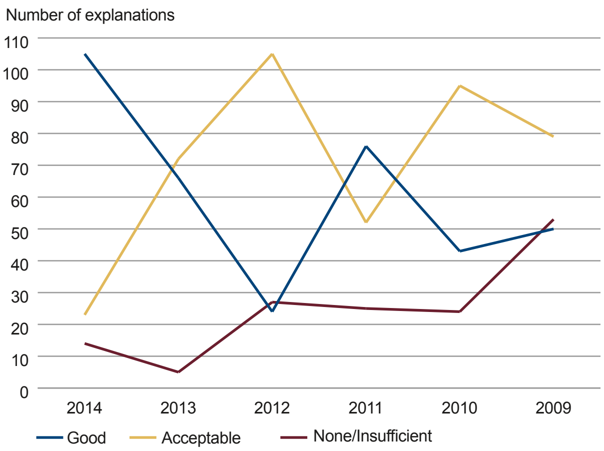


Diagram 4. The information value of explanations, trend

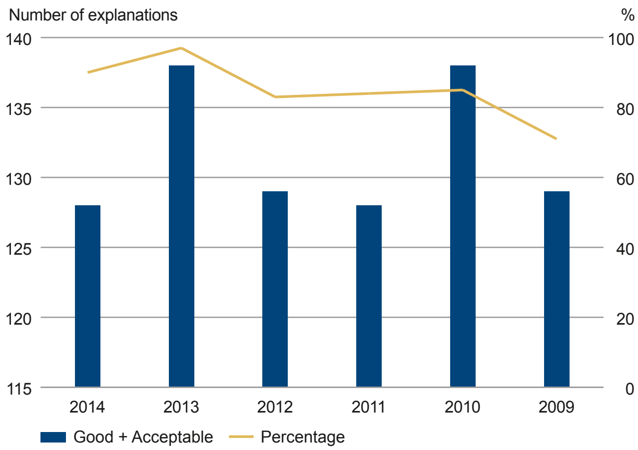


Table 8. The information value of explanations of non-compliance

	2014		2013		2012		2011		2010	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Good	105	74%	66	46%	24	16%	76	50%	43	27%
Acceptable	23	16%	72	50%	105	67%	52	34%	93	58%
None/Insufficient	14	10%	5	4%	27	17%	25	16%	24	15%
	142	100%	143	100%	156	100%	153	100%	160	100%

The 2010 and 2011 surveys showed a significant improvement in information quality. Unfortunately, that positive trend was broken in 2012, but the situation improved significantly in 2013. Just four per cent of companies provided explanations with poor information content in 2013, compared with 17 per cent in 2012. Furthermore, the proportion of explanations found to provide good information rose from 15 per cent in 2012 to 46 per cent in 2013. This can be regarded as a rebound after the poor result in 2012, when the proportion of explanations considered good fell from 50 per cent to 16 per cent between 2011 and 2012.

This year's survey shows further significant improvement, at least on paper. Although the number of poor explanations rose from four per cent to ten per cent, the proportion of good explanations rose from 46 per cent in 2013 to 74 per cent in 2014. See Table 8 and Diagrams 3 and 4 below. It is not the opinion of the Corporate Governance Board that such a substantial improvement in the quality of corporate governance reporting as shown in the 2014 survey actually took place. The primary explanation is probably the change of survey institute. Despite this, the 2014 figures are pleasing, as they show a general improvement in non-compliance reporting from the companies surveyed.

The content of corporate governance reports

For the fourth 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 Annual Accounts Act requires, for example, that companies report which corporate governance code they apply. Every company but one of those surveyed this year 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. Some results stand out more than others, e.g. over 40 companies did not provide information on the professional experience of their board members, over 30 companies did not state who had appointed

Table 9. The detailed content of corporate governance reports

	Yes	No	Partly
Does the report contain information on the nomination committee?			
Composition	236	15	1
Representation	209	33	10
Does the report contain information on board members?			
Age	246	3	3
Educational background	227	11	14
Professional experience	198	45	9
Work performed for the company	251	0	1
Other professional commitments	245	1	6
Shareholding in the company	249	2	1
Independence	241	9	2
Year of election	247	4	1

	Yes	No	Partly
Does the report contain information on the board?			
Allocation of tasks	251	1	0
Number of meetings	252	0	0
Attendance	247	4	1

	Yes	No	Partly	Not applicable
Does the report contain information on board committees?				
Tasks & decision-making authority	208	6	6	32
Number of meetings	191	14	4	43
Attendance	167	35	6	44

	Yes	No
Does the report contain information on the CEO?		
Age	242	10
Educational background	228	24
Professional experience	202	50
Professional commitments outside the company	145	107
Shareholding in the company	249	3
Shareholding in adjacent companies	18	234

9) Code rule 10.2.

members of their nomination committees, and 50 companies did not list the previous professional experience of their chief executive officers. Breaches regarding these requirements were pointed out last year, but this has not resulted in any improvement in 2014.

Another Code requirement is that companies who have been found by the Stock Exchange Disciplinary Committee or the Swedish Securities Council to have committed breaches against the rules of the stock exchange or generally accepted principles in the securities market during the financial year are to report this in their corporate governance reports. All four companies to which this rule applied provided information about the breach, which is an improvement on 2013.

Corporate governance information on company websites

For the fifth 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 refers 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] As people increasingly search for information on the internet, the importance of providing immediate and easily accessible information to shareholders and other stakeholders on company websites grows. This also applies to corporate governance information, and this year's survey is therefore particularly quality assured when it comes to information on websites. A general observation is that many companies are careless about when they publish corporate governance information online, e.g. statements from the board of directors and the nomination committee ahead of the shareholders' meeting. Also, information presented on company websites ahead of shareholders' meetings is often deleted immediately after the shareholders' meeting, despite the requirement in the Code and the stock market regulations that the information is to be saved for at least three years (and this will soon be extended to five years).

Rule 10.3 of the Code requires companies to devote a separate section of their websites to corporate govern-

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

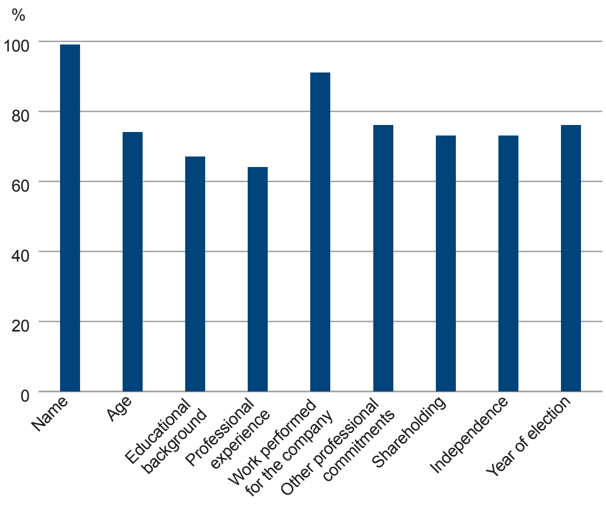


Table 10. Is corporate governance information easy to find on the company's website?

	2015		2014	
	Number	Percentage	Number	Percentage
Yes	227	90 %	189	77 %
Acceptable	25	10 %	46	19 %
No	0	0 %	12	5 %
Total	252	100 %	247	100 %

[10] See Code rule 10.3, paragraph 2.

ance information. This requirement was fulfilled by over 98 per cent of the companies surveyed. Three companies had no such section on their websites at the time of the survey.

One of the questions in the survey concerns 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, which shows that 90 per cent of the companies surveyed have easily accessible corporate governance information, which is a marked improvement on last year's figure of 70 per cent. None of the companies failed fulfil the accessibility criteria entirely, while the standard for the remaining 10 per cent was acceptable. It would not be wise to draw too many conclusions from such a marked improvement however, as the Board changed survey institute, which obviously means that comparison between the criteria used by the two survey institutes is not entirely reliable, but it will be interesting to monitor future developments.

Code rule 10.3 also 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. Surprisingly, at the time of the survey, four companies did not fulfil the latter requirement, while the articles of association of the remaining 248 companies were accessible on the company website, which is an improvement on previous years. Additionally, the Code requires companies to post information regarding the current board of directors, 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 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

Table 11. Detailed information on company websites

2015	Yes	No	Partly	Total	Percentage
Current board members	252	0	0	252	100%
Current CEO	250	2	0	252	99%
Current auditor	239	12	1	252	95%

2014	Yes	No	Partly	Total	Percentage
Current board members	247	0	0	247	100%
Current CEO	246	1	0	247	100%
Current auditor	235	10	2	247	95%

[11] See Code rule 2.6, paragraph 2.

time as issuing the notice of meeting, the nomination committee is also to issue a statement, which is also to be available on the website, with regard to the requirement in rule 4.1, that the proposed composition of the board is appropriate according to the criteria set out in the Code and that the company is to strive for gender balance. Last year, a fifth of the companies surveyed failed completely or partly to issue such a statement. This year, the figure has fallen to just over ten per cent. Even though this is an improvement, it is remarkable that more than one company in every ten did not fulfil the requirements of a Code rule that has been in force since 2008. Last year, almost 60 per cent of the nomination committees did not mention gender balance in their nominations to the board, and in 2012, as many as 80 per cent of companies' nomination committees failed to make any comment on gender balance. Against the background of the debate on the composition of boards, especially the issue of gender balance and the question of whether quotas should be introduced, it was not particularly surprising that the number of nomination committees that neglected to mention gender fell from 58 per cent to 24 per cent – see Table 12. One of the aims of the introduction of the relevant Code rule was to avoid the introduction of 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. This year, the Corporate Governance Board will continue to monitor gender balance on the boards of listed companies committees.

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 still published no information regarding such programmes on their websites. Many companies do not have such programmes, but that as many as half of the companies surveyed would have no current share and share price related incentive programmes seems a very high proportion.

Table 12. Nomination committee statements: Does the statement provide any explanation regarding gender balance on the board

	2015		2014	
	Number	Percentage	Number	Percentage
Partly	2	1 %	15	6 %
Yes	190	75 %	89	36 %
No	60	24 %	143	58 %
Total	252	100 %	247	100 %

Table 13. Information on company websites regarding the board's evaluation of remuneration matters

2015	Yes	No	Partly	Total
Variable remuneration programmes	161	88	3	252
Remuneration policy	184	68	0	252
Remuneration structures and levels	163	81	8	252

2014	Yes	No	Partly	Total
Variable remuneration programmes	144	92	11	247
Remuneration policy	167	76	4	247
Remuneration structures and levels	147	92	8	247

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 of directors and the executive management, (though there is no requirement to issue information on variable remuneration programmes for other employees). This year, 80 per cent of the companies surveyed published such information, which is an increase on last year's figure of just under 75 per cent.

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] This 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 13 shows that there has been some improvement since last year and that over 70 per cent of the companies surveyed fulfilled this requirement in 2014. It must, however, be regarded as unacceptable that as many as 30 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.

[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 adjudicative 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 revisions 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 2014. 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 of directors 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 2014, and these two bodies have no tradition of issuing statements regarding interpretation of the Code.

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

There is not yet any established practice regarding the recommendation issued by the Swedish Corporate Governance Board on 1 January 2015 regarding private placement of shares.

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.

- The first two articles address issues concerning companies' work within the fields of sustainability or CSR, a highly topical subject where there is much confusion about what this actually is and what it has to do with a company's operations. Karolina Dubowicz, of the Swedish communications consultancy Hallvarsson & Halvarsson, attempts to clarify the concepts and what they mean. Sarah McPhee, CEO of savings and insurance firm SPP, describes her company's work and strategy regarding sustainable value creation, as well as her own thoughts on the subject.
- The third article is written by outgoing director of the Swedish Corporate Governance Board Carola Lemne, who is now Director General of Svenskt Näringsliv, the Confederation of Swedish Enterprise. Carola shares her personal reflections on her work at the Board, what the Code can and should contain and the future of self-regulation within corporate governance against the backdrop of the European Union's regulatory hysteria.

What is CSR?

What is sustainability? And corporate social responsibility (CSR)? What does it have to do with corporate governance? The interpretations – and misunderstandings – are still plentiful. It may therefore be a good idea to discuss some of the fundamental terms regarding these concepts.

Karolina Dubowicz,
Senior Consultant and CSR specialist
at Hallvarsson & Halvarsson

Sustainable development

Probably the most widely used definition of sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This definition was presented by the World Commission on Environment and Development, led by Gro Harlem Brundtland, in the mid-1980s.

The Commission argued that social development and economic growth cannot be achieved if natural resources are overused and the environment is destroyed. A healthy environment is therefore a prerequisite for development and growth. Hotel magnate Petter Stordalen puts it a little more simply when he says "there is no business on a dead planet."

But sustainable development (or sustainability) is not just about the environment – the social and the economic dimensions are just as important. It is about utilizing people's, the planet's and financial resources in a responsible manner. If the world is to develop in a positive direction, it is up to everyone – including the corporate sector – to make decisions and act in a way that is... that's right, sustainable.

CSR

The European Commission now offers a short and concise definition of CSR: "Companies' responsibility for their impacts on society". (The updated definition is simpler but its meaning more demanding than the previous wording: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".)

Compliance with laws and regulations is considered an obvious requirement for corporate responsibility and the commitment therefore extends beyond that. It also emphasises the need for a process to integrate social, environmental, ethical, human rights and consumer concerns into the company's operations and strategy. The overall aim is to maximise the mutual creation of value for owners, other stakeholders and society in general on the one hand, and on the other hand to identify, prevent and avoid potentially adverse impacts. Finally, all of this should take place in close interaction with the company's stakeholders.

What it means

The bottom line is that more stakeholders than just the owners are taken into account. Companies have relationships with a variety of stakeholder groups, including customers and clients, employees, various organizations and local communities. They therefore have multiple roles – suppliers / problem solvers, employers, funders and community members – and their activities have numerous and widespread consequences for the world around them. Companies are also expected to take responsibility for these consequences having maximum positive impact and minimum negative impact. The many and close relationships require both self-awareness and a large degree of "social competence", i.e. an extrovert and responsive attitude and an ability to act on demands and expectations.

THE HOW, WHAT AND WHY OF BUSINESS

CSR can be seen as modern way of managing companies that is in tune with reality. And precisely because it is about business strategy and operations, it requires processes, management and control to orchestrate it all. This is the company's "how".

CSR is also evolving to redefine the concept of value creation and the role of business; what companies can contribute and to whom. CSR is much more than risk management – there are obvious upsides and this is where the above-mentioned mutual value comes into play. Companies can, for example, provide benefits to society through their products and services and through their operations. This should not be at the expense of shareholder benefits – on the contrary, this is how the company can ensure its success. Nestlé has moved from being a food business to being a company that provides nutrition, health and wellness, and has become one of the companies that have shown the way forward in the mutual creation of value. This is the company's "what", and even its "why".

If we know all this, we also know what CSR is not. Consequently, it is not sponsorship, it is not a project and it is not anything else that is limited in commitment, scope, time, and especially in proximity to the business. And the relationship between CSR and sustainability? The terms are often used synonymously, but are not exactly synonymous. CSR – corporate social responsibility – can be seen as the road and sustainability as the goal. If individual companies, the corporate sector and society at large are to continue to develop in the long term, we need to be responsible.

GREATER EXPECTATIONS, GREATER AMBITION

There are a number of indications that the requirements on a company's accountability, operations and communications are increasing. The demands will no longer come only from dedicated individuals or groups with special interests, but from the growing mainstream. At the same time, this is not just a response to external pressures; many companies see the opportunities and are taking advantage of them.

Reporting requirements a clear indicator

A clear expression of market and societal expectations is the requirements on companies' sustainability audits, and extension on their operations. The number of reporting initiatives is increasing, initiatives are adopted in more countries and initiatives are becoming increasingly mandatory. In autumn 2014, the EU issued a directive on non-financial reporting and there is proposed legislation that would come into force in 2016. This would mean that an estimated 2 000 Swedish companies would need to produce sustainability reports. Companies owned by the Swedish state have had requirements regarding both performance management and sustainability.

Accounting Initiatives will also become more demanding with regard to content. The GRI (Global Reporting Initiative) guidelines for sustainability are a clear example of this. The Fourth Generation Guidelines, (G4), launched in 2013 involves a range of fairly extensive changes compared with previous versions. The focus has shifted from what companies can do what they should do. Previously, companies were expected to provide information on activities where they have control, (e.g. companies that they own) and influence (e.g. joint ventures). Now, information about significant impacts along the entire value chain is to be provided. Additionally, G4 places considerably higher demands on information on the management of these essential aspects.

Opportunities for innovators

CSR offers plenty of opportunities for innovation. Why devote time and energy to construct new impulses to buy when so many human needs remain unfulfilled? Take Ikea, for example, which (at least partly) seems to be moving from the "how" of responsible entrepreneurship to the "what". They are not only improve processes such as procurement to ensure better working conditions and lower environmental impact in manufacturing, but also looking at how Ikea's skills can be used and what more they can contribute. Better Shelter, a social enterprise in cooperation between the IKEA Foundation and the UNHCR, is developing better housing solutions for refugee camps. Smart engineering used to make vulnerable people's lives a little more bearable, could it be any better?

The engines driving the corporate sector in a more sustainable direction are therefore both outside and within the companies themselves. Benefits to society and good behaviour are expected, and any inability to deliver these has consequences. Perhaps the most egregious example is Enron, which suffered several large bankruptcies in the early 2000s – the Sarbanes-Oxley Act regulatory framework that followed was anything but unexpected. Meanwhile, there are forward-thinking companies that inspire and set norms and standards for their sectors and for the wider business community.

GOOD GOVERNANCE A PRECONDITION

The actual management of companies is a basic component of CSR – it is a modern and expanded way to look at what they do, how and why. As well as farsighted and competent management, it requires processes in order to work. Respect and consideration for people and the environment needs to be incorporated into management and operations in the same way as everything else that is a part of business. Responsible and sustainable business therefore requires good governance, and vice versa.

Sustainable value creation

Never before has the link between sustainability and profitability has been so strong. And it is not actually a positive scenario that led to this sudden awakening. It is cold reality.

Sarah McPhee,
CEO of SPP

From sustainability being a shabbily treated sideline that did a few "good things" in far too many companies, there has been a rude awakening for many corporate leaders that sustainability is something completely different: strategy and survival. We have witnessed how classic sustainability issues, whether they be the environment, working conditions, corruption or ethics, have impacted the financial positions and share prices of companies. Sustainability is not a question of values, but of real monetary value.

One of the most important tasks of the board of a company is to decide on the right long-term strategy. The board must therefore be able to interpret external factors that can affect the company's prospects for success. Working proactively with strategic sustainability is therefore no longer just an administrative exercise but a matter for the owners and thus also a concern for the board.

When sustainability and economy meet

Today, we are living as though we had one and a half earths, and if we continue at the same pace, we will need three by 2050, which we do not have. The nature that provides for us is not recovering at the pace we would like.

The ongoing mismanagement of our planet's natural resources is one of our greatest challenges of our time, and it is a question of both environment and economics. We are completely dependent on the earth's resources to make money. A shortage of water, clean air and capacity to deal with waste affects relative prices of inputs. Companies' resource efficiency is therefore crucial to profitability in both the short and long term.

The world economy's centre of gravity has shifted to emerging countries, where an increasing global middle class is gradually adjusting its consumption patterns to those of the industrial economies, putting serious pressure on the environment and availability of resources. More want more. The combination of population growth scarcity of resources requires radical technological innovations, changed lifestyles and new forms of production.

Holistic consider repairing in operational and business

The primary task of corporate governance is to ensure that boards take these global challenges seriously and report to shareholders on the company's preparedness to face a new world.

The work of boards should focus on scenarios for the future and identifying which are most the important for the company to respond to. Sustainability must be integrated into every business function, into management systems and into all decision-making processes. Business must be seen in a wider context and embrace major societal trends and tendencies.

Choosing the best companies in an investment strategy

At SPP, we analyse and rate 2,500 stock exchange listed companies. We identify companies that integrate sustainability activities into their operations and who see sustainability as a business opportunity. We do not invest in the worst companies and invest more heavily in the best.

We focus our analysis particularly on financial stability, sustainable operations and positioning with regard to future trends such as population growth, scarcity of resources and changing consumption patterns.

Analysis of the sustainability of operations includes everything from production processes to the monitoring of supply chains, environmental impacts, social conditions and corporate governance. As a matter of course, we do not invest in companies that breach international norms and conventions. We are convinced that those companies which are prepared to meet more stringent sustainability requirements in the future are those who will be tomorrow's winners and increase most in value. It is these companies that have the power to innovate and the realisation that the resources of the planet on which we all depend cannot be overexploited.

The role and responsibility of the board

The most important work of the board of a company is the design of its strategy and follow-up, which means that sustainability is crucial to good board performance. Monitoring, objectives and concrete targets should be therefore identified and followed up.

The board is also responsible for ensuring that integrated reporting takes place. Various sustainability indices can provide guidance in this, even if the company does not intend to enter a stock exchange. The board's task is to set the framework and prioritise between different areas.

The Swedish Corporate Governance Code should therefore integrate sustainability as a reporting area to enable the systematisation of information. Building on international conventions and sustainability indices, the Code can specify how the information can be structured. Investors will then be able to see more easily how well listed companies are equipped to meet future challenges.

Ambitious and strategic sustainability work in a listed company is nothing more than a long-term strategy focused on when significant external changes are expected to occur.

Companies with a concrete and communicable plan to improve their competitiveness in the light of these changes will undoubtedly deliver better shareholder value.

It is pleasing to see that more and more companies choose the sustainable way. And not just because it is best for the world, but also because it is best for the company's value creation.

Safeguard the Nordic model!

After 6 years as a director, Carola Lemne has left the Swedish Corporate Governance Board to become Director General at the Confederation of Swedish Enterprise. She emphasises that the years she spent at the Board provided many valuable lessons about the importance of self-regulatory corporate governance, with its rules grounded in the real world, based on common sense and focused on usefulness and applicability. The major cause for concern for the future is therefore the EU's ambition to create a legislative framework in an area where self-regulation has shown itself to work better.

Carola Lemne,
General Director of Svenskt Näringsliv, the Confederation of Swedish Enterprise

Until 2008, I had not imagined being considered for a position on the Swedish Corporate Governance Board. When I was sked to join, I was CEO of Praktikertjänst, admittedly a large and well-run company with many shareholders, but unlisted. My previous management positions had mainly been in the life science and health care sectors, and prior to my position at Praktikertjänst I was CEO of Danderyd University Hospital. One of the reasons I was asked was probably that I had sat on the board of Getinge for five years. When Anders Nyrén called and said "it’s time to do your military service," I was still really surprised.

After some reflection, I concluded that it might not be was entirely out of place to bring other perspectives into the group and that, with my experience, hopefully, I could also contribute to the further development of good Swedish corporate governance. After all, most of the rules of the Code are sound principles, no matter what kind of companies one is running.

I enjoyed a number of very instructive and rewarding years at the Board, not least because of the Board's way of working. We have established what I would like to call a utilitarian approach, which is built on continuous research and analysis to ensure that we have identified what is important; carefully monitoring that any changes genuinely are for the better; and constantly proposing additions and revisions that are both proportionate and grounded in reality without being meddlesome. The role of the Code is not to be a burden for companies, but a guide that will highlight relevant criteria of what defines good corporate governance.

A Code built on common sense

My personal view is that good corporate governance should be based on common sense, contribute to better transparency and comparability of information, and safeguard the respect for ownership. Basically, it is a matter of good husbandry, i.e. managing and caring for your company and keeping good order. If you do that, things will be fine. Companies can derive great benefit from the Code, but it does not contribute immediately to better operations and profitability. However, it does help to maintain a healthy separation of powers, with the right balance between the authority and responsibilities of shareholders on the one hand and those of the executive management on the other. Recently, we have seen examples that show that it also works. After all, it is not reporters that force out boards and managers, but the owners, who act when they are not happy with the way companies are run.

The Code cannot be carved in stone for all eternity. It must be a living document. We need to be alert to what is happening in the world around us, what legislators may have in mind and the major trends that also have impact on the day to day work of companies, e.g. gender equality, diversity and social responsibility. When I was new to the Corporate Governance Board, a major review of the Code took place, which resulted in revisions that on the whole were very good. These consisted partly of a slimming down of the number of rules, but also stronger requirements regarding independence for nomination committees and better, more detailed information to shareholders' meetings, not least with regard to gender balance in nominations to boards of directors.

Gender quotas are not the solution

Gender balance is a difficult issue. I do not really believe that there is a particularly strong support for the demands for quotas for women on company boards, but that there is frustration in many quarters over the slow pace towards achieving a better balance between men and women in senior positions. This impatience needs to be recognised and acknowledged.

At the same time, it should be borne in mind that quotas would be a major encroachment on property rights, which is one of the fundamental principles of the UN Declaration on Human Rights. If you want to restrict property rights, in this case the right of the owners of a company to elect the board of directors freely, there must be major demonstrable benefits as a result in order for this to be justified. Such regulations exist of course, when a very large and real public benefit has come before that of shareholders. But when it comes to female representation in various organs, there is no data that shows unequivocally whether gender balance in itself makes any difference to the running of the company. However, there is nothing to support the oft-repeated explanation that there is not yet a sufficiently large pool of women to recruit as board directors in listed companies. Not everyone needs to have been the CEO of a listed company to be able to contribute valuable experience to a board of directors.

Nowadays, however, this issue is on the agenda in a completely different way, and I think that one reason why progress is so slow is that most people simply act automatically and without thinking. It is therefore important to get people to reflect. Companies, owners and their boards of directors and nomination committees should take seriously the requirement to explain why more women are not being nominated to their boards and why there are so few women in executive management positions. Having to explain can make it clear to people in these positions that it is a question of changing one's way of thinking, increasing awareness and finding new routes to recruitment. In my opinion, dictates and laws can never be a solution in this case. Political parties may be able to allow themselves the opportunity to set quotas in their internal processes, but it would be unsustainable in the corporate world.

Be open about compensation and benefits

During my time as a director of the Corporate Governance Board, we have conducted a further review of the Code, and one of the revisions concerns recommendations regarding the remuneration of senior executives. The origin of this is a recommendation from the European Commission, but as everyone knows, this issue has received a great deal of media coverage in Sweden over many years. Sometimes the level of debate has been rather populist, with comments like "How many million do you really need in order to do a good job?"

So far, the Board's recommendations contained in the revised Code have averted Swedish legislation on this matter. I am also convinced that there is a widespread acceptance that companies are the basis for the prosperity of our country. You might call it a social contract, and it is built on people seeing and understanding that where there are enterprising people and a successful businesses, that's where the money is comes in to pay for the things that society needs and the things that we all would like to have . They enable us to have good infrastructure, good social safety nets, good elderly care, good schools... How this money is then used politically is a completely different matter – whether it is used for the right things in the long term or for short term opportunistic gains. It is companies that provide growth, jobs and export income, and it is then up to the political sector and other stakeholders to decide on redistribution of resources and to use tax revenues wisely.

In tune with this, I am also convinced that most people accept that some have higher salaries than others, if they are well deserved. When companies are successful, and staff and shareholders are enjoying the benefits, high executive pay is less controversial. I therefore believe the Board's model: describe and explain clearly how salaries and benefits are set, following the same principle of openness as in other areas of corporate governance.

One size does not fit all

One of the biggest and most difficult issues the Board has to deal with in the future, however, is the European Commission's proposed revision of the Shareholder Rights Directive, which was presented last year. The proposal seems to emanate from general anxiety in the capital markets caused by various incidents in recent years, interpreted from a blinkered perspective within the EU bureaucracy and an exaggerated belief that bad decisions by company executives can be legislated away. It also has a strong bias towards an Anglo-Saxon ownership model that assumes many small, and possibly weak, shareholders and where the chair of the board and the CEO are often one and the same person, which reinforces the influence of executives and creates a poor balance of power. We also see that it is based on a fundamental suspicion that there is a conflict between the interests of large and small shareholders. In our view, large and small shareholders should have the same interest in the positive development of the company. Moreover, I think that we in Sweden have strong protection of minority shareholders' interests, not least thanks to the Code.

I am in no way opposed to other countries having their own views on shareholder rights and corporate governance, but considering the differing traditions and cultures in the different member states, it is a serious intervention to even attempt to use legislation to find a once-size-fits-all model. We can certainly learn from each other, but not with the help of a poorly grounded view of the real world.

The interesting thing about this issue is that we in the Nordic countries now appear to be on the way to doing just that, i.e. finding a common point of departure. We have taken several steps towards a clear picture of how much unites us. For example, the fact that we have a structure with many large companies with one strong owner, while still providing effective protection for the minority shareholders, and perhaps thus also a longer-term ownership perspective. A recent report from SNS, the Centre for Business and Policy Studies, entitled ”The Nordic Corporate Governance Model” , confirmed that there are aspects that distinguish us and which work well and have the potential to continue doing so. That was also the message that I and my colleagues in the other Nordic industrial employer associations conveyed in an article in the Financial Times in early 2015.

For me as Director General of the Confederation of Swedish Enterprise, there is also every reason to safeguard the positive aspects of the Nordic corporate governance model. We want strong Swedish companies that can continue to be competitive and continue to be based in Sweden. We can be proud of the global companies that have grown up in this country, but also feel a certain anxiety. In recent years, 35 billion kronor of research funding in companies has left the country. It is a question of where global companies with global governance models choose to place their research and development functions. It is therefore not inconsequential where the ownership is. It is not always certain that the choice will be Sweden in any case, but with Swedish owners, Swedish companies can compete in a completely different way, despite the fact that Sweden is a small country.

Keep fighting for self-regulation

I would therefore sincerely like to urge the new Corporate Governance Board to continue to fight for the Nordic model in the EU and continue to provide evidence that self-regulation is better for a thriving corporate sector than legislation. Above all, it must push for greater utilitarian focus grounded in real results, also in its dialogue with the Swedish government, which must demonstrate convincingly how legislation and other political decisions can lead in the right direction and that the benefits of regulation outweigh the costs. And if not, what are the other benefits that you can guarantee?

Going forward, it is important that the Board retain the approach that we have established in recent years, which is to ensure that everything is grounded in a reality in which hypotheses and proposals are tried and tested and found to be sustainable.

I have learned many lessons during my time at the Swedish Corporate Governance Board. We had a good mix of diverse experiences and the work was focused on a strong desire to be as grounded in the realities of the corporate sector as possible. I am convinced that conditions for this to continue are good, and in my role as Director General of the Confederation of Swedish Enterprise, I will of course continue to closely monitor and be deeply engaged in the issues that the Board promotes and is responsible for in the future.

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