

ESG regulatory challenges and stakeholder requirements: Are you fit for purpose?

A workshop by SWIPRA Services
in collaboration with SIX Swiss Exchange

Zurich, 11th May 2022



Plan for this seminar

1. **Introduction**
2. Defining ESG – Common understanding
3. Status of ESG regulation – What is and will be expected?
4. Bringing ESG into the company – How can this be approached?
5. Conclusion

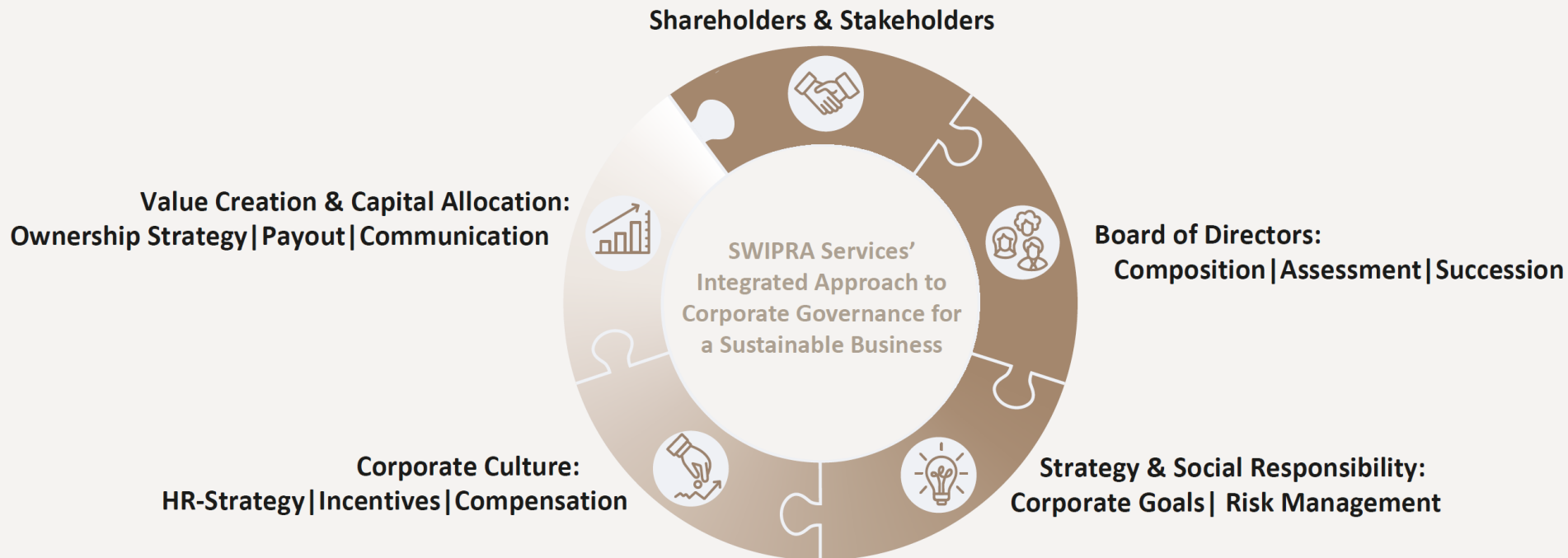


Introduction: SWIPRA Services

- SWIPRA Services provides **corporate governance and corporate social responsibility services** for listed companies and their boards of directors.
- We support our clients with **hands-on advice** that takes into consideration relevant stakeholder opinions with the aim of increasing the value of the company in the long term, based on principles of value-based management and empirically relevant criteria.
- SWIPRA Services is working with a **high-profile think tank**, the “Panel of Experts” and the “Panel of Investors”, to further develop corporate governance and ESG in Switzerland.
- In collaboration with researchers of the University of Zurich, we further conduct **scientifically-based market research** on ESG.



Introduction: Our approach to strategy and ESG



© SWIPRA Services

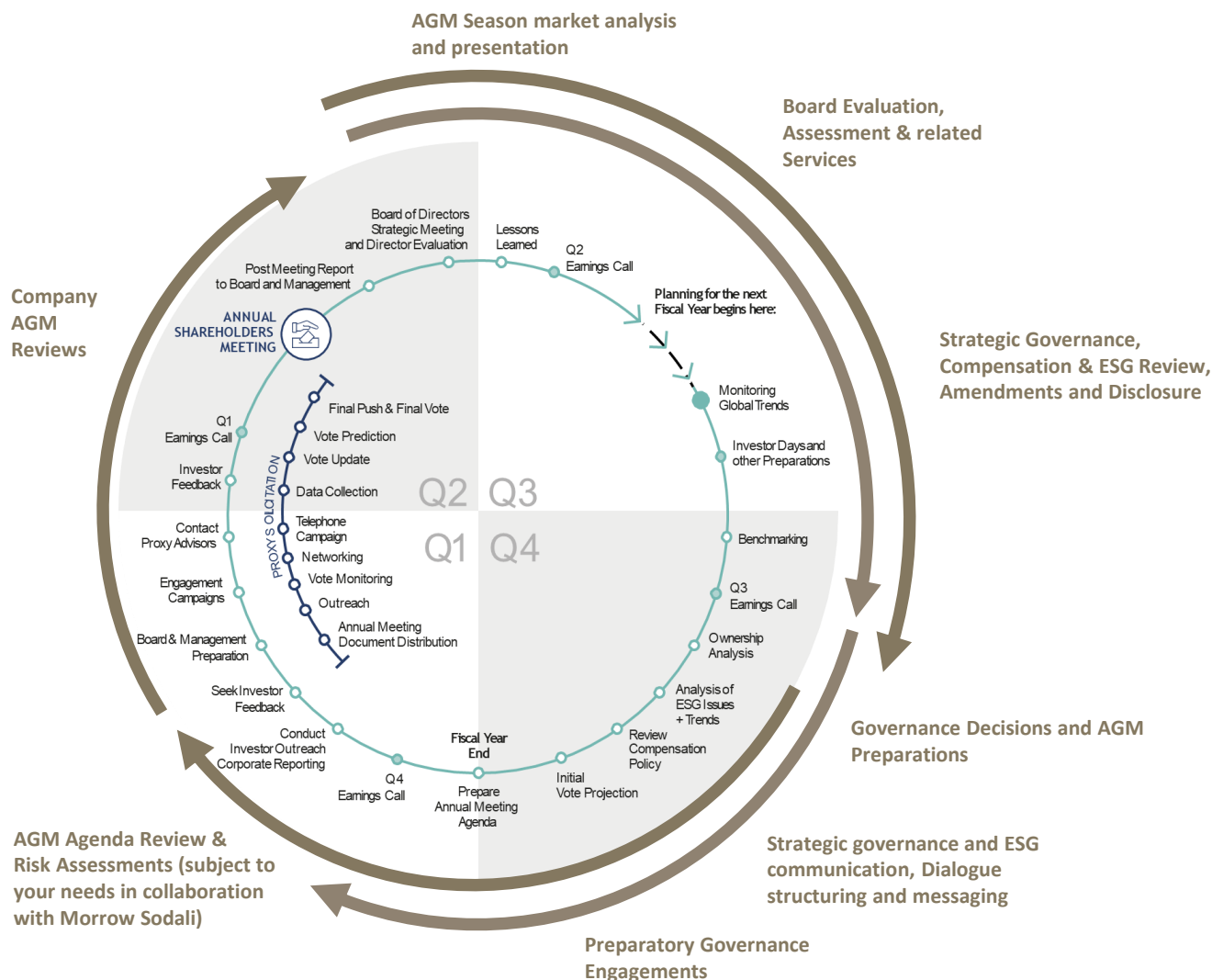
Our holistic approach and integrated view on corporate governance and corporate social responsibility guide the identification and management of relevant governance risks.

We advise boards of directors and executive management in creating sound and modern corporate governance frameworks for the benefit of the company and its stakeholders.

We support investors in their stewardship activities and dialog with investee companies as well as with local institutional knowledge.



Introduction: Your Governance cycle over the year



SWIPRA Services will support you in your continuous strategic review process of your governance framework:

- Board Assessment
- Governance Structures & Disclosure
- Corporate Social Responsibility Integration
- Non-Financial Reporting
- Incentives & Compensation
- AGM Risk Assessments & Proxy Services (in collaboration)

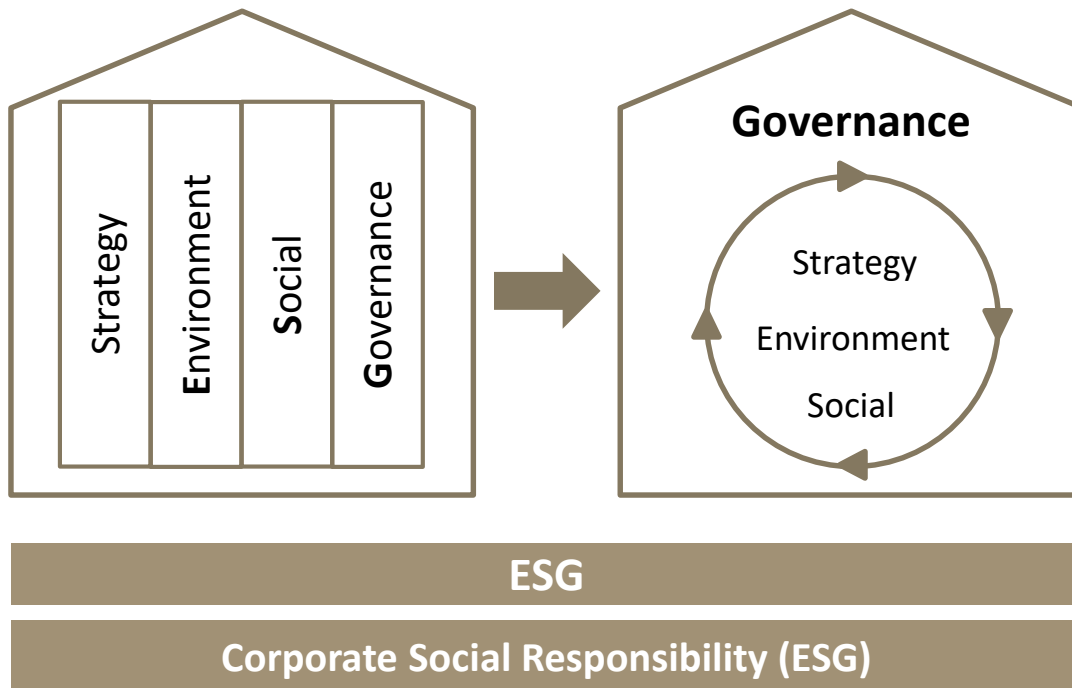


Plan for this seminar

1. Introduction
2. Defining ESG – Common understanding
3. Status of ESG regulation – What is and will be expected?
4. Bringing ESG into the company – How can this be approached?
5. Conclusion



Defining ESG: The «how» of corporate strategy



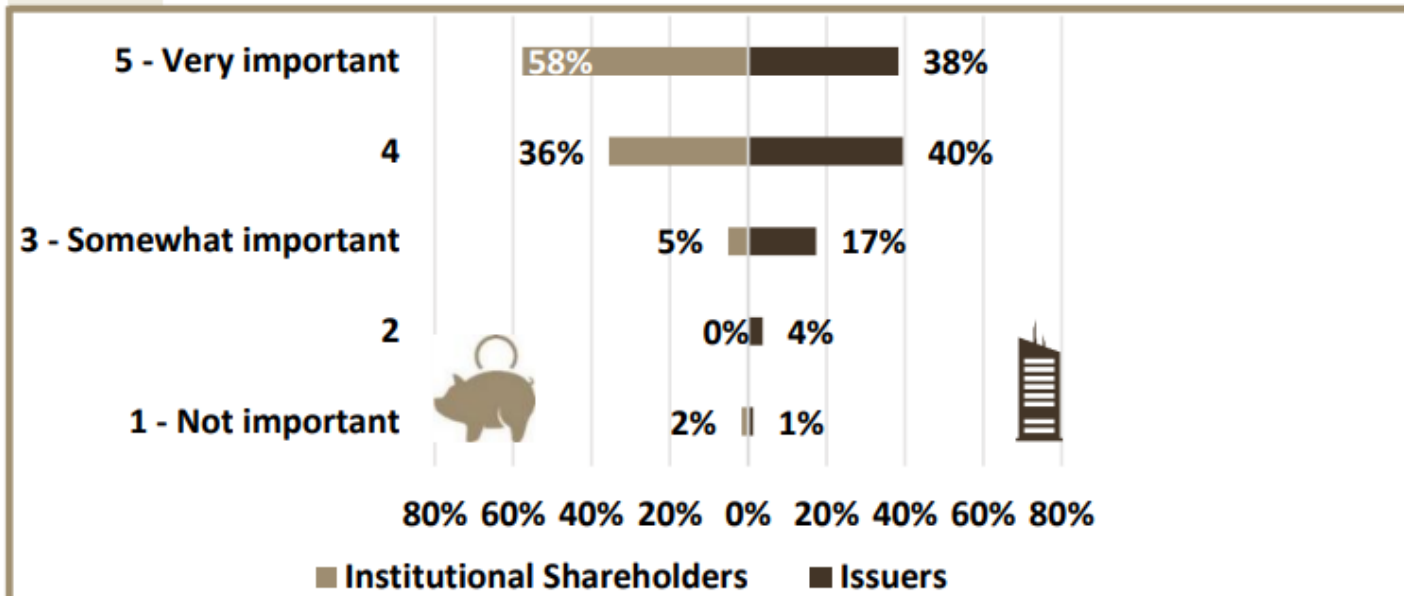
- No "silo mindset", but anchored in corporate strategy
- Integrated approach "inside-out" how a company operates its business in terms of long-term value generation
- «Philanthropy» vs. long-term capital allocation securing a successful strategy execution



Defining ESG: Governance as the Foundation



How important is governance for E&S policies? Survey 2021



Source: SWIPRA Corporate Governance Survey 2021



Plan for this seminar

1. Introduction – Who are we
2. Defining ESG – Common understanding
3. **Status of ESG regulation – What is and will be expected?**
4. Bringing ESG into the company – How can this be approached?
5. Conclusion



Status of ESG Regulation

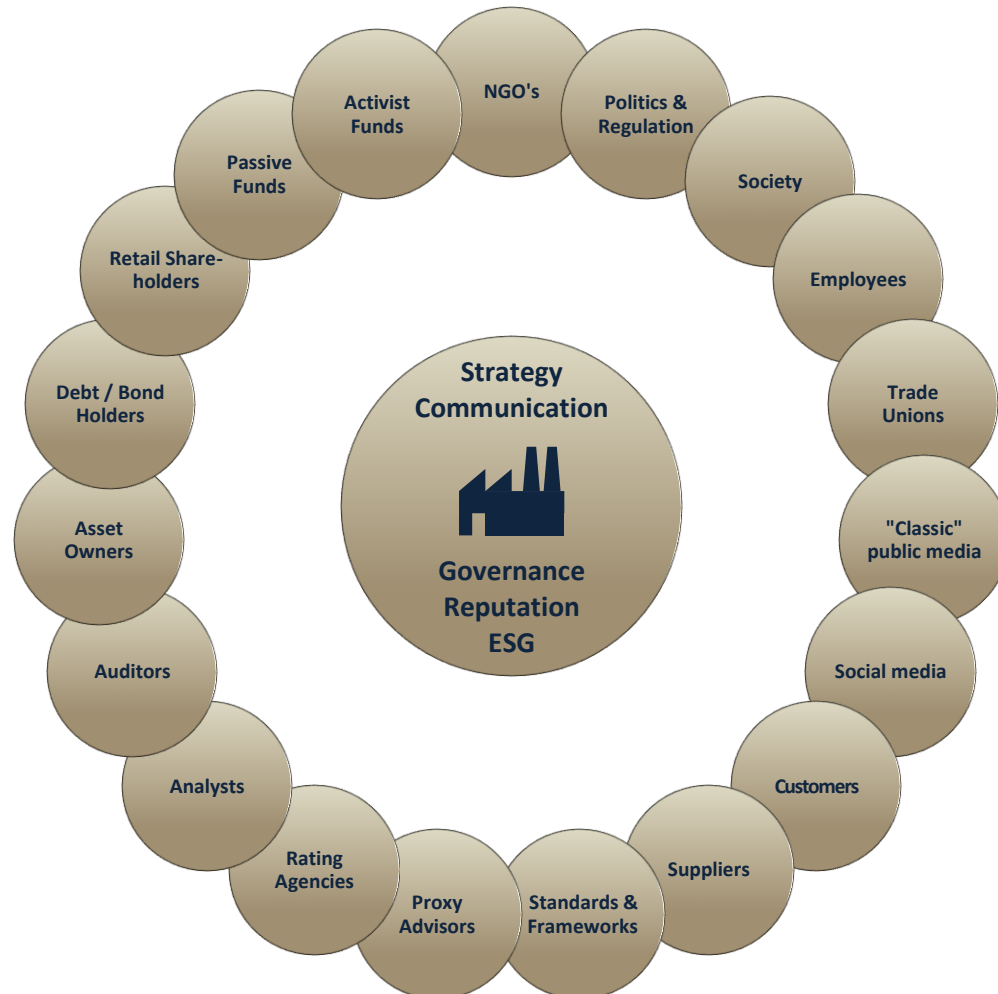
Switzerland – Non-financial reporting

| Rules/Law | Content | Applicability exclusions | Concerns |
|--|--|---|----------|
| SIX Listing Rules | <ul style="list-style-type: none"> - Disclosure of governance-related information - Ad-hoc news | No | G |
| Swiss Corporate Law (OR, general) | <ul style="list-style-type: none"> - Business conduct and non-transferable duties of the board - AGM and AGM agenda, board elections - Financial and non-financial reporting - Compensation-related matters | No | G |
| Transparency on Non-Financial Matters (OR964a-d) | <ul style="list-style-type: none"> - Report on non-financial matters: environmental matters, in particular the CO2 goals, social issues, employee-related issues, respect for human rights and combating corruption | Yes, based on size-related measures | E, S, G |
| Transparency in Raw Material Companies (OR964d-i) | <ul style="list-style-type: none"> - Report on payments made to state bodies related to business operations in the mineral, petroleum or natural gas extraction industry or to the harvesting of timber in primary forests | Yes, based on industry-related measures | S, G |
| Due Diligence and Transparency related to Minerals and Metals from Conflict-Affected Areas & Child Labour (OR964j-l) | <ul style="list-style-type: none"> - Implementation of a risk and compliance management system for supply chains related to minerals and metals from conflict areas (incl. external audit) - Implementation of a risk and compliance management system for supply chains related to child labour | Yes, based on size-related measures | E, S, G |
| Disclose according to framework of Taskforce on Climate-related Financial Disclosure (TCFD) | <ul style="list-style-type: none"> - Currently in consultation - Ordinance clarifying that environmental-related part of non-financial report should be provided according to TCFD framework - Comply-or-explain | Yes, based on size-related measures | E, G |



Status of ESG Regulation

Do you know your key stakeholders' expectations?



- **Local rules and regulations** are only one, admittedly very strong, external driving force for a company's ESG framework
- “Regulatory Compliance” is not sufficient: Stakeholders such as **international capital markets or your value chain** are a **source of spill-overs from regulatory developments** and expectations from other parts of the world and international best practice approaches



Status of ESG Regulation

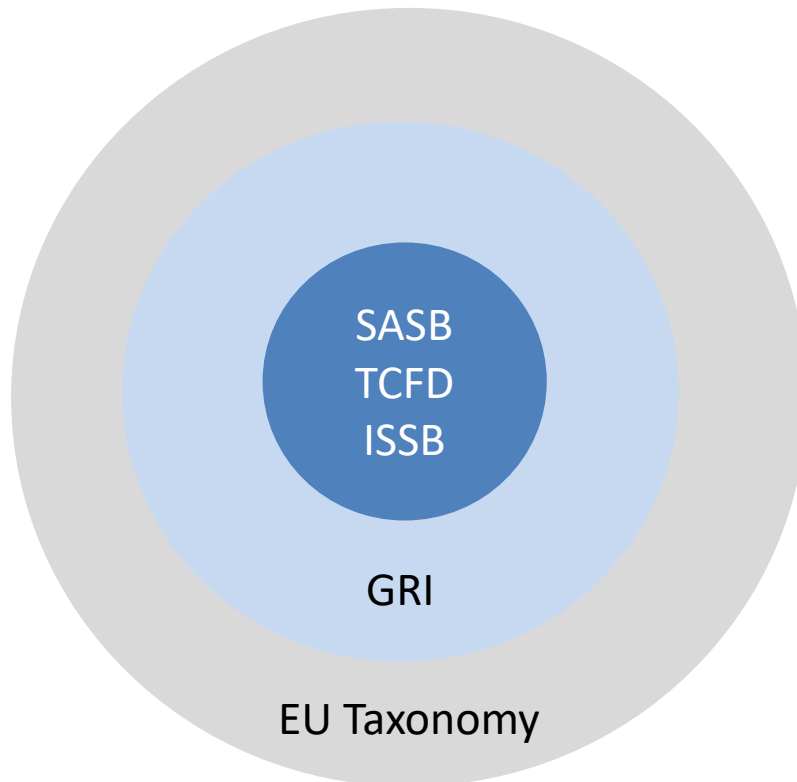
International – Non-financial reporting

| | European Union | UK | US | Worldwide |
|-------------|--|--|--|--|
| Key pillars | <ul style="list-style-type: none"> • EU Taxonomy • Non-financial Reporting Directive (NFRD) • Corporate Sustainability Reporting Directive (CSRD) | <ul style="list-style-type: none"> • Sustainable Disclosure Requirements (SDR) • FCA Listing Rules | <ul style="list-style-type: none"> • The Enhancement and Standardization of Climate-Related Disclosures for Investors | <ul style="list-style-type: none"> • IFRS Sustainability Disclosure Standard S1: General Requirements for Disclosure of Sustainability-related Financial Information • IFRS Sustainability Disclosure Standard S2: Climate-related Disclosures |
| Status | <ul style="list-style-type: none"> • Taxonomy: Implementation 2022/23 • NFRD: Enacted since 2014 • CSRD: Implementation 2024, replacing NFRD | <ul style="list-style-type: none"> • FCA Listing Rules apply since Jan 2021 • SDR: Starting in financial year following April 2022 | <ul style="list-style-type: none"> • Currently in consultation | <ul style="list-style-type: none"> • Currently in consultation |
| Focus | <ul style="list-style-type: none"> • Broad set of a stakeholders • Impact of environmental and social changes on the company AND impact of the company on environmental and social changes | <ul style="list-style-type: none"> • Investors | <ul style="list-style-type: none"> • Investors • Impact of environmental and social changes on the company | <ul style="list-style-type: none"> • Investors • Impact of environmental and social changes on the company |
| Frame-works | <ul style="list-style-type: none"> • Own • Scope similar to the Global Reporting Initiative (GRI) Framework | <ul style="list-style-type: none"> • TCFD | <ul style="list-style-type: none"> • SASB • TCFD | <ul style="list-style-type: none"> • ISSB [TCFD & SASB] |



Status of ESG Regulation

International – Consolidation & Alignment



- There are various **efforts to align** and create cross-national, common standards for non-financial reporting, similar to IFRS and US-GAAP for financial reporting.
- The development seems to be that the existing approaches will be **consolidated into a three-tier framework** based on single and double materiality as well as product- and service-specific measurements.



Status of ESG Regulation

ESG activism: Focus on the board of directors

- Your company must **help stakeholders understand the extent of the board's oversight** by providing transparent and comparable disclosures, aligned with ESG standards and frameworks.
- But it's also crucial to understand how investors are assessing directors' capabilities and actions. So **ensure your board is engaged and informed** about the topics that matter to your company, investors and your industry.
- In the year up to June 30, 2021, in the US, BlackRock voted against 255 directors and against 319 companies for climate-related concerns with the potential to negatively impact long-term shareholder value. BlackRock has also sharpened its **focus on other ESG factors when evaluating its support of director elections** with the firm expecting its portfolio companies to provide disclosure aligned with the TCFD framework and SASB standards.*
- In Switzerland in 2021/2022, first companies presented their «Net Zero Roadmap» (Nestlé, UBS, Holcim), CS was faced with respective shareholder proposals; in addition, gender and other board composition requirements have become more contested.

* Veritas Executive Compensation Consultants May 2022



Plan for this seminar

1. Introduction
2. Defining ESG – Common understanding
3. Status of ESG regulation – What is and will be expected?
4. **Bringing ESG into the company – How can this be approached?**
5. Conclusion



Bringing ESG into the company

Approach #1



“Wait until the regulator tells us what to do”






Bringing ESG into the company

Approach #1: Wait until the regulator tells us what to do



1. January 2022

- Taxonomy Goals 1 & 2 
- SFDR-Reporting 

2022

- Taxonomy eligibility (RE & FI) 
- Corporate Law Reform effective 
- FINMA climate-related risk management 

2023




- Taxonomy alignment reporting (RE) 
- Taxonomy eligibility (FI) 

2024+ ???







Summer / Fall 2022

- Proposal and adoption delegated acts CSRD-Standards 
- External audit of internal equal pay analysis 

Summer / Fall 2023

- CSRD implementation 
- Consultation TCFD reporting 
- Public disclosure of equal pay analysis 

2024

- CSRD-Reporting (FY23) 
- Taxonomy alignment reporting (RE & FI) 
- End transition of corporate law reform 
- Reporting child labor and conflict minerals 
- Non-financial report (FY23) incl. Shareholder vote from 2024 
- TCFD-Reporting? (FY23) 



Bringing ESG into the company

Approach #2

“Wait and see what our shareholders want”

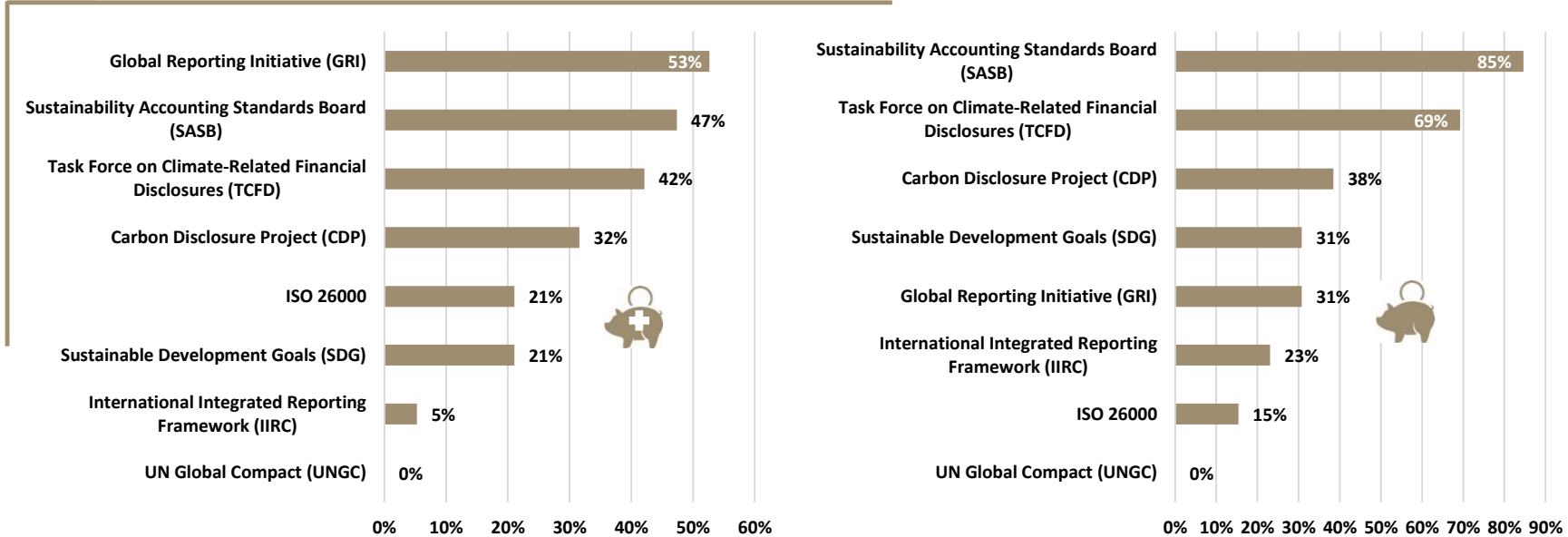


Bringing ESG into the company

Approach #2: “Wait and see what our shareholders want”



Shareholder preferences for ESG reporting standards Survey 2021; multiple choices possible



- 53% of Swiss shareholders prefer companies to report according to GRI, 47% in favor of SASB
- 85% of non-Swiss shareholders prefer companies to report according to SASB standard, 69% in favor of TCFD
- Non-Swiss shareholders have a much stronger preference for a specific standard than Swiss shareholders



Bringing ESG into the company

Approach #3

“We are too small a company to be in the focus of these ESG rules”



Bringing ESG into the company

Approach #3: We are too small a company to be in the focus of these ESG rules

Reporting obligations according to Legal Framework

OR Art. 964^{bis} ff.:

A company has non-financial reporting obligations if it *cumulatively* fulfils the following three requirements:

- The company is a public interest entity according to the Audit Supervision Act, i.e. a public company (listed on the stock exchange, company with bond issues) according to OR Art. 727 para. 1 or a company supervised by FINMA according to Art. 3 FINMAG.
- The company, together with the domestic or foreign companies it controls, has an annual average of at least 500 full-time positions in two consecutive financial years.
- The company, together with the domestic or foreign companies it controls, has a balance sheet total of CHF 20 million or sales revenue of CHF 40 million in two consecutive financial years.



Bringing ESG into the company

Approach #3: We are too small a company to be in the focus of these ESG rules

Legal Framework

OR Art. 964b:

“The report shall include in particular: [...] a description of the main risks related to the matters referred to in paragraph 1 and how the undertaking is dealing with these risks; in particular it shall cover risks:

- a) that arise from the undertaking's own business operations, and
- b) provided this is relevant and proportionate, ***that arise from its business relationships***, products or services”

Business Relations

- Damages to Reputation / Brand considered Top 3 strategic risk according to global surveys by AON (during Covid-years, dropped to Top 5 risk)



Bringing ESG into the company

Approach #4

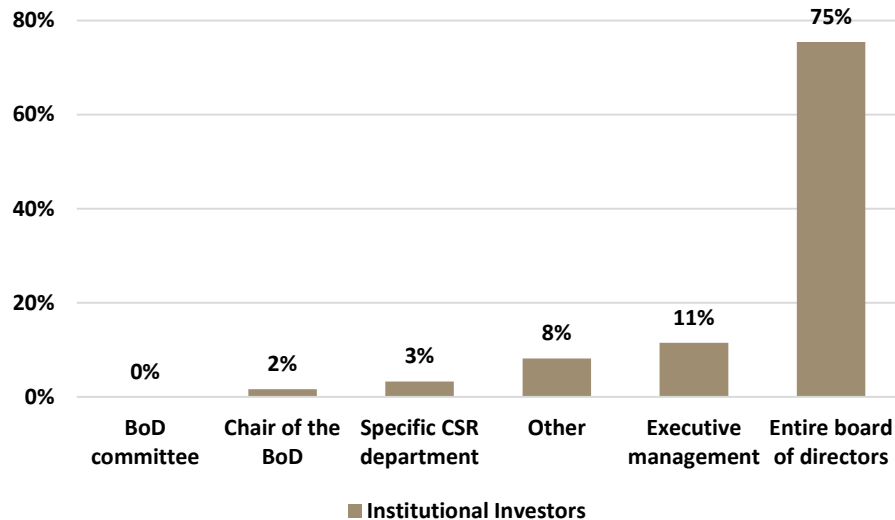
“Everything related to ESG is delegated to a specific IR or compliance professional”



Bringing ESG into the company

Approach #4: Everything related to ESG is delegated to a specific IR or Compliance professional

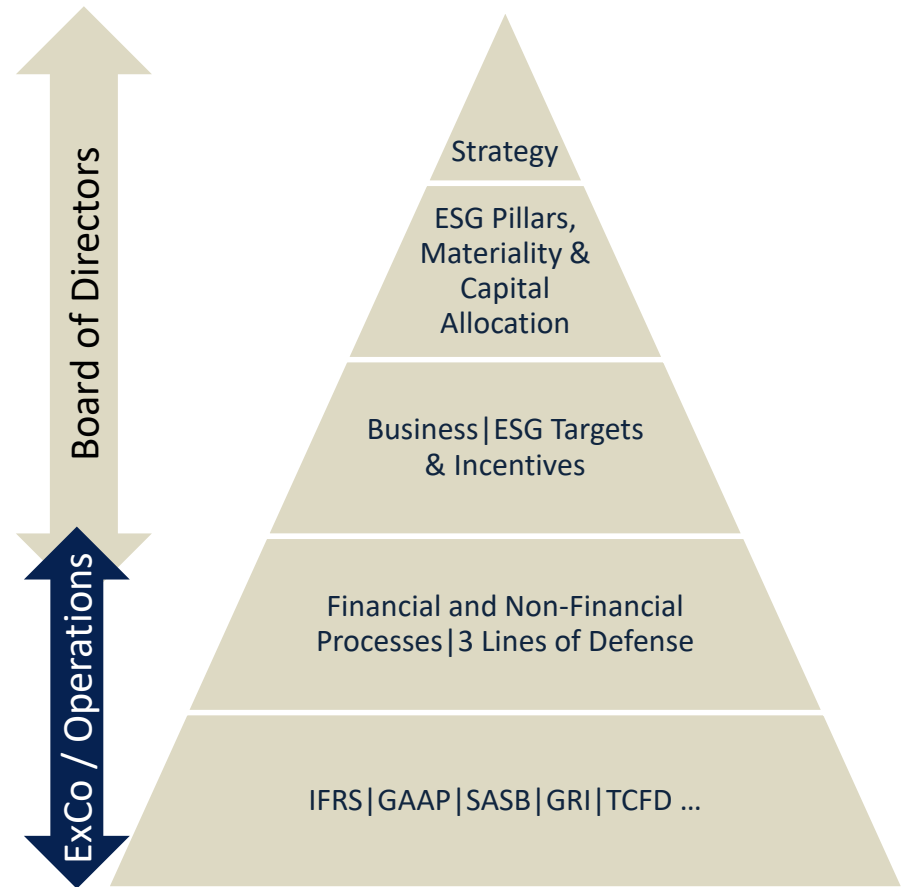
Expected ESG responsibility in the company* – SWIPRA Survey 2020



- Missing strategic anchoring of ESG increases the risk of «greenwashing» allegations and reputational issues
- Investors may not understand your board's capabilities and actions
- The company may fail in articulating its capital allocation strategy and its long-term goals
- HR and compensation strategies may remain unclear

Question: In your opinion, who should be in charge of defining the corporate social responsibility strategy in a company?

ESG Implementation Levels



© Illustration: SWIPRA Services Ltd



Bringing ESG into the company

Approach #5

“What are others doing?”

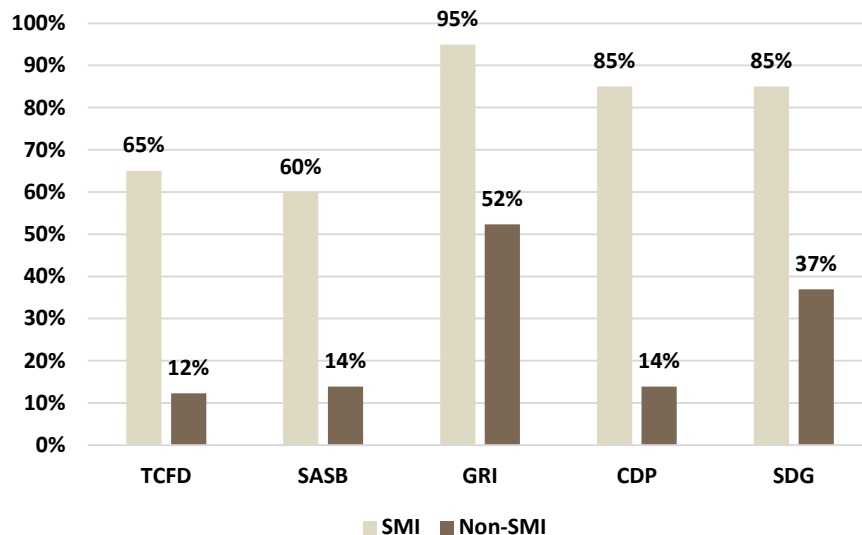


Bringing ESG into the company

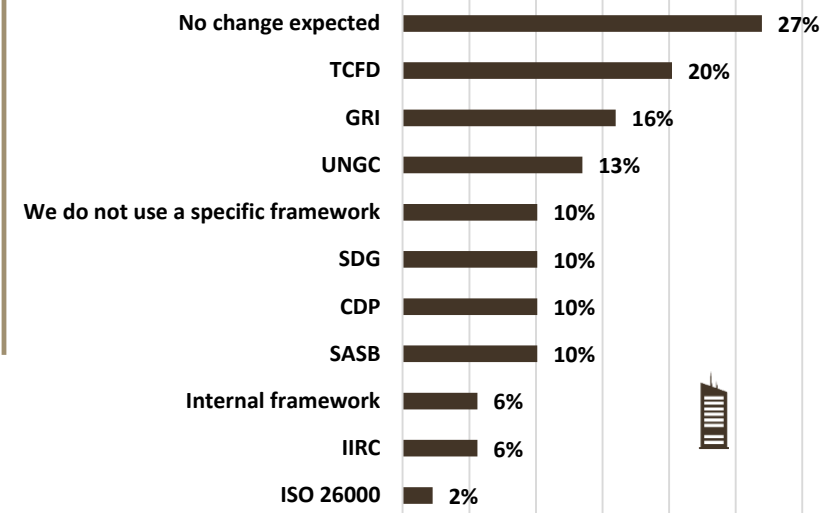
Approach #5: What are others doing?



Companies' implemented ESG standards SWIPRA AGM Analysis 2021



Expected ESG reporting standards going forward SWIPRA Survey 2021 - Companies



- The most often used reporting standard for reporting year 2020 amongst the largest 100 SPI® companies was GRI, a trend that continued in the reporting season 2021
- A form of TCFD was applied by 65% of SMI®, but only by 12% of the medium sized SPI® companies
- Going forward, 27% of companies expected no change to their reporting framework (67% of SMI, 24% Non-SMI)
- Only 20% intended to implement TCFD (43% SMI, 14% Non-SMI) in addition going forward



Bringing ESG into the company

Approach #6

“What is a feasible approach FOR US?”



Bringing ESG into the company

Strategic anchoring of ESG and taking your stakeholders on your ESG journey





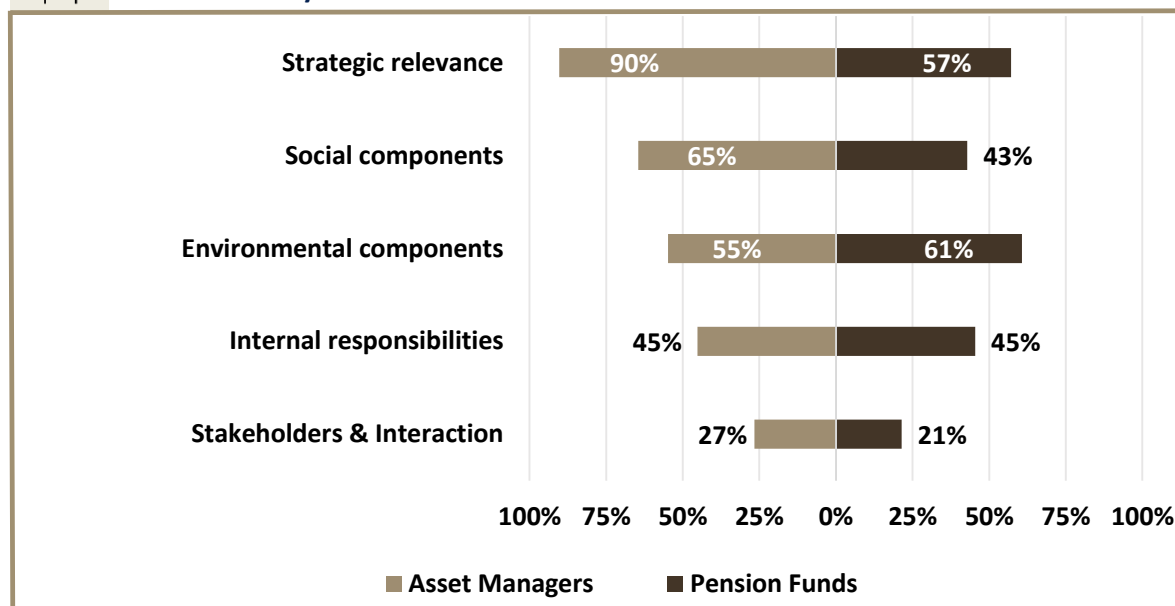
Bringing ESG into the company

Approach #6: What is relevant for us?



Shareholders' missing pieces of relevant information

SWIPRA Survey 2021





Bringing ESG into the company

Approach #6: What could be an individualized approach?

Board and management to define a framework with the goal of:

- Explaining your strategic and integrated view to stakeholders
 - Which disclosure standard may help me to structure this view and guide the data gathering process?
- Defining requirements from the BoD's perspective to achieve this "integration"
 - Can we do this with existing resources and knowledge?
- Understanding of corporate culture and set incentives
 - Alignment with strategy needs to come "from the top"
- Capital allocation, ownership strategy, and related communications aligned with strategic goals
- Assurance and role of BoD in non-financial processes and operational risk
 - Overall BoD / Audit & Risk Committees / Strategy & HR Committees
 - Overall Reputation Management
 - ESG opportunities in strategic implementation: How do we need to manage our business to be successful? Which processes and KPIs are key?



Plan for this seminar

1. Introduction
2. Defining ESG – Common understanding
3. Status of ESG regulation – What is and will be expected?
4. Bringing ESG into the company – How can this be approached?
5. Conclusion



Bringing ESG into the company

Conclusion (I/II)

- **Wait and see should not be considered an option**
- **Take the driver's seat with respect to ESG, defining what is best for your company**
- **Just because you are below the regulatory minimum applicability-thresholds does not mean you are not impacted**
- **ESG concerns the very foundations of your company. This makes ESG a topic that should be integrated in executive and board agendas**
- **ESG is not a compliance, but a strategic exercise!**



Bringing ESG into the company

Conclusion (II/II)

Help your company and your board

- Understanding ESG risks and opportunities, vulnerabilities and paths for improvement
- Uncovering material ESG issues related to your business, your strategy and your industry, ranging from diversity and inclusion to climate change
- Breaking down the ESG landscape, whether you are starting at the beginning or taking topical deep dives
- Examining the leading ESG reporting frameworks and standards, as well as any relevant sector- and country-specific efforts
- Understanding your key shareholders' preferences and processes, such as engagement priorities, use of third party ESG data, ratings agencies, proprietary scoring systems, and discussing materiality – including the concepts of double materiality and dynamic materiality



Contact information –

We are looking forward to hearing from you!

SWIPRA Services Ltd

Claridenstrasse 22

CH – 8002 Zurich

Phone +41 55 242 60 00

info@swipra.ch

www.swipra.ch



Strategic ESG & Board Services tailored to your needs



Board Assessments, Coaching & Advice

Board Assessments:

A comprehensive and tailored assessment of your board of directors, including a 360° review to improve the effectiveness and efficiency of the board and your governance framework.

Board Workshops, Coaching & Advice:

Tailored workshops, trainings and advice on topics such as market expectations & regulation, strategic ESG integration, crisis management, stakeholder dialogue, board & committee processes and agenda setting, skill analysis and strategy mapping



Strategic Governance & ESG

Governance Structures, ESG & Disclosure:

We support you in shaping your ESG frameworks with a view towards long-term value generation, targeted to your stakeholders.

We support you in creating awareness and positioning ESG as an integral part of strategy.

Our analysis includes a comprehensive governance & ESG risk assessment.

Incentives & Compensation:

We assess your incentives and compensation framework and support you in aligning with strategic financial and non-financial (ESG) targets and disclosure.

Non-Financial Reporting & Communication beyond Compliance:

We work with you to advance your non-financial reporting, taking into consideration individual needs, shareholder and stakeholder expectations, Swiss legal requirements and international regulation. Together with you, we develop individualized communication tools.



AGM & Engagement

Integration in Strategic Communication & Engagements:

Together with you, we develop related communication and engagement strategies targeted at internal and external stakeholders, complementary to your corporate reporting.

Shareholder & Proxy Response, Rating requirements:

Understand risks and opportunities ahead of the AGM, including investor, proxy advisor and rating agencies' views, and develop an action plan to optimize messaging and voting results.



3-Year Packages: Corporate Governance & ESG



ESG Packages

ESG Package ESG Assessment Package

Governance Structure Review

Triennial review of your corporate governance framework: Board of Directors (organization, composition, etc.), ESG integration and strategic consistency (inside-out) and matching against market practice and key stakeholder expectations (outside-in)

Governance Vulnerability Assessment

Based on your ESG disclosure: vulnerability assessment considering strategic alignment, ESG integration & market expectations

AGM Invitation Assessment

Annual review of your AGM invitation to understand risks and opportunities ahead of the shareholder meeting

Update AGM Season Review and Expectations

Annual update on key issues identified at AGMs in Switzerland and abroad incl. learnings and action points for the year ahead

Non-financial Integration Assessment

Triennial review of your non-financial reporting and its strategic integration, considering your individual needs, shareholder and other stakeholder expectations, Swiss legal requirements

Pricing (fixed fee excl. VAT) for *three* years*

“ESG Package”: CHF 90'000

“ESG Assessment Package”: CHF 75'000

Governance Structure Review only: CHF 25'000



3-Year Packages: Board of Directors & Leadership



Board Packages

Board Package
Training Package

Accompanied Board Development Assessment (Module 1)

Annual self-evaluation of the board of directors on progress made, issues identified and challenges ahead, based on the original findings of the comprehensive board assessment

Comprehensive Board Assessment (Module 2)

Comprehensive and tailored evaluation of your board of directors including a 360° review to improve the effectiveness of your board and your governance framework

Board Workshop

Annual board workshop on a specific topic identified as critical for the board of directors

Board Composition Assessment

Annual update of the board's skills and experience map, including a gap analysis with respect to strategic targets and expectations

Update Capital Market Expectations

Regular updates on current capital market developments relevant for board of directors

Pricing (fixed fee excl. VAT) for *three* years*

"Board Package": CHF 95'000

"Training Package" excl. board assessments: CHF 45'000



We believe in networks



SWIPRA is actively maintaining an ESG Knowledge Network

Together with service partners, we tailor our support to your individual needs



Proven Track Record*

ABB

A
THE ADECCO GROUP

amun

ascom

Baloise
Group

CLARIANT

CREDIT SUISSE

dormakaba

Givaudan

Implenia

LafargeHolcim

Landis+Gyr
manage energy better

Lonza

Nestlé Good food, Good life

p|s|p
Swiss Property

SCHMOLZ + BICKENBACH
Group

SIG

softwareONE

Swiss Re

Sunrise

VIFOR
PHARMA

ZURICH



Team CV's SWIPRA Services

Barbara A. Heller, MBA, Managing Partner



Barbara has more than 30 years experience in the financial services, pharmaceuticals and consulting industry as senior manager, executive and board member.

After receiving her Masters Degree from the University of Zurich in 1991, Barbara joined Bank Leu (today Credit Suisse) in credit, project & trade finance for international corporate clients. As a Managing Director she later headed the business unit capital markets/financial engineering until 1996. From 1997 to 2005, she was Managing Director at Vontobel Investment Banking and responsible for various Swiss and international corporate finance and private equity transactions and consulting services for board members and investor groups. From 2005 to 2012, Barbara was CFO of Santhera Pharmaceuticals, Basel (SIX:SANN), leading its IPO in 2006.

Barbara Heller is a member of the board of directors of Graubündner Kantonalbank (SIX:GRKP), Member of the Board of Directors of Orascom Development Holding (SIX:ODHN), member of the Investment Committee of Transparenta Collective Pension Foundation, Vice-Chair of the Swiss CFO Forum, Chairperson of the Jury of the Swiss CFO Award and Of Counsel at Lemongrass Communications. Until March 2021, she was a member of the board of directors of Bank Cler Ltd, Basel, chairing its Audit Committee.

Barbara received her Masters Degree in Economics and Business Administration, with an emphasis on financial economics, empirical research and banking from the University of Zurich.

Dr. Christoph Wenk Bernasconi, Senior Partner



Christoph Wenk Bernasconi is a Partner at SWIPRA Services AG and Post-Doc at the Department of Banking and Finance at the University of Zurich.

Christoph is a founding member of SWIPRA and responsible for the scientific approach of its projects and analyses. He is co-author of the SWIPRA Considerations for Corporate Governance and of the SFI Whitepaper on corporate governance.

Further, Christoph is conducting empirical research and lectures in the field of corporate governance and corporate finance.

After the successful completion of his coursework in the PhD program of the Swiss National Bank in Gerzensee, Christoph Wenk wrote his thesis in the field of empirical corporate finance and graduated in spring 2013. His research expertise is in the empirical analysis, in particular on topics of corporate governance and corporate finance as well as corporate valuation