ICGN Sweden Governance Priorities
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The International Corporate Governance Network ("ICGN") is pleased to publish the ICGN Sweden Governance Priorities at the ICGN Conference, hosted by Andra AP-fonden (AP2), in Stockholm, Sweden from 7-8 March 2023.

Established in 1995, ICGN's purpose is to convene capital market participants to develop, promote and embed high standards of corporate governance and investor stewardship worldwide to preserve and enhance long-term value, contributing to sustainable economies, societies, and the environment. ICGN Members, many of whom are investors responsible for assets of around $70 trillion, are based in over 40 countries - largely in Europe and North America, with growing representation in Asia. For more information visit www.icgn.org.

The Nordic model of corporate governance has inspired capital markets around the world, particularly in relation to investor inclusivity in board nomination procedures. The purpose of the ICGN Sweden Governance Priorities is to provide a perspective on areas of potential continued improvement. As such this document serves to help inform regulators, companies and stakeholders around matters of particular significance to investors that may influence governance oversight, voting, engagement, and investment strategies for public companies.

In developing the ICGN Sweden Governance Priorities we have reviewed the Swedish Corporate Governance Code and the Swedish Companies Act[1] both of which set out governance requirements for listed companies. Our recommendations also draw from discussions with representatives from Swedish investment funds and businesses that are members of ICGN.

We have also referred to the ICGN Global Governance Principles ("ICGN Principles") as a benchmark for our deliberations. Many ICGN Members use the ICGN Principles in their investee company monitoring, voting and engagement activities. The ICGN Principles also inform governments and regulatory agencies on internationally accepted standards to help inspire the evolution of national corporate governance codes.

The recommendations presented in this paper are applicable to companies globally, not just those listed or held privately in Sweden, and are defined under the following broad themes:

1. Sustainability reporting
2. Minority shareholder interests and protections
3. CEO and executive remuneration
4. Board dialogue with investors and relevant stakeholders

ICGN Recommendations

1. Sustainability reporting

ICGN welcomes the Swedish Corporate Governance Code requirement that *"boards of certain companies are to provide annually, in a sustainability report made available on the company's website, the information to shareholders and the capital market on sustainability*

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[1]Swedish Companies Act (Sw. Aktiebolagslagen (2005:551), State-owned enterprises - Government.se

issues that is necessary for an understanding of the company's development, position and results, as well as the environmental impact of its operations."[2] The requirement is part of the "comply or explain" standard, which allows companies to offer "*alternative solutions which they feel are better suited to their particular circumstances….and explain their reasons for doing so".*[3]

ICGN encourages harmonisation of national sustainability-related accounting and reporting frameworks with global standards (backed by regulation and enforcement) to facilitate rigorous, consistent, comparable, and verifiable corporate sustainability reporting. In relation to climate change, the adoption of global standards will provide a tool for investors assessing companies' progress towards achieving transition plans and carbon neutral investment portfolios as we advance towards a net-zero global economy by 2050.

ICGN also recommends that:

1.1. Boards disclose their approach to the governance of sustainability, for example in terms of board expertise, incentives, internal controls, and the processes and frequency by which the board and/or committees discuss sustainability-related risks. This responsibility should be explicitly referred to in the Board Charter or appropriate committee terms of reference, along with the responsibility for sustainability risks and opportunities more broadly. In this regard, we note the reference to the ICGN Principles in the EU Corporate Sustainability Reporting Directive (recital 44) which may provide additional guidance.

1.2. Boards should disclose the company's public commitment to net zero targets by 2050 and describe how they oversee the adaption of business models to net zero carbon emissions through credible and actionable net zero transition plans aligned with the company's purpose and long-term strategy.

1.3. The financial consequence of sustainability impacts on a company should be consolidated within the financial statements (including in the Notes). The publication of a separate sustainability report as a standalone document without linkage to the financial statements could imply that such impacts are not financial or material, which is misleading. Both should be published at the same time.

1.4. Companies should have clear policies for managing natural and human capital including procedures for eliminating discrimination. The company should address concerns with modern slavery, forced labour, and potential violations of human rights within its operations and/or supply chains. The company should disclose these policies and their enforcement within a sustainability report that has undergone an assurance process.

1.5. Companies should describe the impact of physical and transition risks and opportunities on business models and company strategy over the short, medium, and long-term. This should be aligned with credible and actionable net zero transition plans including quantitative metrics and targets. The strategy should be periodically reviewed and progress towards achieving key objectives reported annually. Disclosure should describe the resilience of the business taking account of different scenarios and include both qualitative and quantitative information. Optimally, disclosure should also include the engagement with industry bodies to support the firm's own public positions on these issues. This will help investors understand how each scenario will impact risk, strategy, business model and future cash flows, and whether the public reporting mirrors any public policy advocacy the company has undertaken.

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[2] The_Swedish_Corporate_Governance_Code_1_January_2020.pdf (corporategovernanceboard.se), 10. Information on corporate governance, sustainability and remuneration, p. 26.
[3] The_Swedish_Corporate_Governance_Code_1_January_2020.pdf (corporategovernanceboard.se). p. 6.

2. Minority shareholder interests and protections

ICGN appreciates that the Swedish Companies Act contains provisions which offer *"protection to minority shareholders, such as requiring qualified majorities for a range of decisions at shareholders' meetings"*[4] as expressed by the 'equality principle', cited in the Act. Sweden is a market with a relatively high proportion of controlled companies and, therefore, the protection of minority shareholder interests and their ability to hold investee company boards to account is particularly important. As such, ICGN advocates that the optimal share structure for companies wishing to benefit from access to public capital should be one vote for each share within the same share class.

ICGN also recommends that:

2.1. Divergence from a 'one-share, one-vote' standard which gives certain shareholders power or control disproportionate to their economic interests should be avoided. Dual class share structures should be clearly disclosed by the Board along with a description of any safeguards established to afford protection to minority shareholders against misuse or misappropriation of investee capital due to conduct by the company's board, its management or controlling shareholder.

2.2. Sunset clauses should be included in company charters specifying that any dual class share mechanisms will automatically lapse after a certain period or events at which point the enhanced voting shares will convert into shares to meet the "one share-one vote" requirement.

2.3. There should be an adequate number of independent directors serving on the board and committees to act as a check on any controlling owner influence and to help ensure minority shareholder rights are upheld. This includes a review of the shareholding structure on an annual basis. This is noted in the Sweden Corporate Governance Code which states that a majority of the board members are to be independent of the company and its management. This Code standard is imperative[5] for listed companies that have controlling shareholders with 30% or more voting rights.

3. CEO and executive remuneration

Remuneration plans should be designed to align the interests of the CEO and senior executives fairly and effectively with the workforce and long-term company strategy, including the use of sustainability-related metrics. ICGN welcomes comparative remuneration reporting across Europe which improves the ability of investors to analyze plans and annual reports and enhance their dialogue with Remuneration Committees.

ICGN also recommends that:

3.1 The rationale for remuneration awards aligned to key performance indicators be clearly described, including sustainability related objectives, and progress towards achievement monitored. This will help facilitate shareholder understanding of remuneration practices and more informed voting on pay plans.

3.2 Boards should communicate, on an annual basis, clear and monitorable performance-based incentives based on the company's long-term strategy. Swedish investors have indicated, for example, that performance requirements that link only to an absolute Total Shareholder Return metric, do not generally take sufficient account of the company's specific strategy or risks.

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[4] The_Swedish_Corporate_Governance_Code_1_January_2020.pdf (corporategovernanceboard.se), p. 7.
[5] The_Swedish_Corporate_Governance_Code_1_January_2020.pdf (corporategovernanceboard.se), p. 11.

3.3 Companies should annually disclose CEO and senior executive pay and on an individual basis with a format that includes the proportions of fixed pay, bonus payments upon achievement of targets, long-term incentives, and historical pay levels (over at least two to three years), including non-cash benefits such as director and officer insurance, pension provisions, etc.

3.4 Boards should ensure that their Remuneration Committees are comprised fully of independent directors. The Remuneration Committee is responsible for developing and disclosing clear policies and reports which are clear, understandable, and comprehensive and which should describe how awards are granted to the CEO and senior executives were determined and deemed appropriate in the context of the company's underlying performance in any given year. The names of Committee members and their independence should be disclosed in a Skills Set Matrix for the entire Board.

4 Board dialogue with investors and relevant stakeholders

Experience in Sweden and globally shows that long-term investment institutions, working individually or as part of a collective effort, can help influence companies to adopt more sustainable business practices. The dialogue between companies and their stakeholders, as well, can provide important information for boards and companies to consider when demonstrating governance, sustainability and performance aligned with the company's purpose and strategy.

ICGN also recommends that:

4.1 The Swedish Corporate Governance Code refer to a company's relationship with stakeholders. In this regard the ICGN Principles[6] recommend that 'boards should ensure there is a process for the identification of relevant stakeholders, establish a stakeholder engagement policy.

4.2 The Board communicate with investors and relevant stakeholders on company policies and sustainability plans to limit greenwashing, including any management proposals on the ballot related to "say on climate".[7] An independent and external audit should be conducted to provide shareholders and stakeholders with increased transparency on the company's management of these risks.

4.3 The Board and management should schedule appropriately regular dialogue with investors and relevant stakeholders to discuss the company's long-term plan for value creation and sustainable business practices. In doing so, we encourage companies to draw from external standards to allow for comparisons within a relevant peer group (or apply evidence-based estimates where external metrics do not exist) to demonstrate progress towards sustainability driven goals.

4.4 The Board oversee timely and reliable disclosures about the company's financial position, approach to sustainability, performance, business model, strategy, and long-term prospects with investors and relevant stakeholders.[8]

For more information about ICGN, please visit www.icgn.org.

[6] ICGN Global Governance Principles, Guidance 4.6, Page 19.
[7] Say on Climate: Investor Distraction or Climate Action? - MSCI
[8] ICGN Global Governance Principles 2021.pdf, p. 7.