

Ethos Foundation
Place Cornavin 2
P.O. Box
CH-1211 Geneva 1
T +41 (0)22 716 15 55
F +41 (0)22 716 15 56
www.ethosfund.ch

SIX Swiss Exchange SA
SIX Exchange Regulation
Pfungstweidstrasse 110
8005 Zurich

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Comments of Ethos Foundation regarding the consultation on the partial revision of the Directive on Information relating to Corporate governance of SIX Swiss Exchange in relation to proxy advisors

1. INTRODUCTION

Ethos Foundation unites 226 Swiss institutional investors, the majority of which are pension funds regulated by the Swiss federal law on occupational benefits and which invest a substantial part of their assets in Swiss shares listed on the stock market SIX Swiss Exchange. Since 20 years, Ethos Foundation, by the way of its company Ethos Services, advises its members and clients on the exercise of their voting rights at the annual general meetings of Swiss listed issuers.

Ethos currently provides voting recommendations to more than 200 Swiss institutional investors. Ethos Foundation is thus directly concerned by the present consultation which demands that issuers publish the amounts paid to a proxy advisor for services in connection with questions of corporate governance, if this advisor also provides proxy voting advice.

2. COMMENTS OF ETHOS FOUNDATION

2.1 Support the transparency obligation in case of conflict of interest

Ethos Foundation supports the proposition of SIX Exchange Regulation to introduce into the Directive concerning information on corporate governance (DCG) an obligation by issuers to publish the fees billed by the proxy advisors for consulting services in connection with questions of corporate governance. In fact, the main function of a proxy advisor is to provide independent proxy voting advice to the investor community. It is therefore very important that the proxy advisor preserves his independence.

The proposal of SIX Swiss Exchange to raise the transparency in this domain is welcomed by Ethos. This additional information is crucial for allowing investors to detect and assess potential conflicts of interest of proxy advisors in the course of their analyses and issuance of proxy voting advice.

2.2 Obligation to indicate explicitly the type of mandate

Ethos is of the opinion that under the new point 6.6.2 of the SIX Swiss Exchange directive it is insufficient to only indicate the name of the proxy advisor and the amount of the fees. It is necessary to complement the information with the publication of the type of mandate (***see proposition below in bold and underlined***).

This addition is particularly important for Ethos. Investors must know which types of services have been provided by the proxy advisors in order to identify where there may be a potential conflict of interest. Services regarding corporate governance (board composition, transparency of the corporate governance report...) or remuneration (remuneration policy, drafting of the remuneration report, establishment of a peer group for comparison of the remuneration amounts...) are provided by certain proxy advisors. Such services can lead to a loss in objectivity. It is therefore important to know which types of mandates were carried out in order to know for which agenda items at the annual shareholder meeting such a conflict of interest might possibly impair the objectivity in judgement of the proxy advisor when formulating proxy voting advice.

Point 6.6.2 Annex to the PD DCG

If during the reporting year the issuer or another group company purchases advisory services from a proxy advisor as defined by this directive, the following information must be provided:

- a. Name and domicile of the proxy advisor;*
- b. Type(s) of mandate(s)***
- c. Total amount of fees the proxy advisor invoices the issuer during the reporting year.*

2.3 Prohibition of certain mandates

For Ethos, consulting mandates that concern subjects on corporate governance which are submitted to the shareholder vote at the annual general meeting are incompatible with the mission of a proxy advisor. In fact, the latter wield a large influence over shareholders by way of their proxy voting recommendations. This requires an irreproachable independence with regards to the analyzed companies.

For example, a proxy advisor is faced with a major conflict of interest if he carries out a consulting mandate regarding board composition or the remuneration policy, when he is also providing proxy voting advice on these same subjects. By analogy, it is unthinkable that an auditor audits the financial statements that he himself has established.

Ethos is therefore of the opinion that it must be prohibited for proxy advisors to offer consulting mandates concerning subjects for which they provide voting advice at the annual general meetings of the companies concerned.