SWEDISH
CORPORATE
GOVERNANCE BOARD

Annual report 2014

Contents

If you have any questions or comments for the Swedish Corporate Governance Board, please contact:

Arne Karlsson (Chair of the Board)
Ratos
Drottninggatan 2
S-111 96 Stockholm, Sweden
Telephone: +46 8 700 1700
E-mail: arne.karlsson@ratos.se

Björn Kristiansson (Executive Director)
The Swedish Corporate Governance Board
Box 7680
S-103 95 Stockholm, Sweden
Telephone: +46 76 000 00 78
E-mail: bjorn.kristiansson@bolagsstyrningskollegiet.se

Foreword

I believe in the Swedish corporate governance model and therefore in the principle of self-regulation that is central to it. I do so not only in my roles as a company executive and director – where I have seen the benefits of this well-functioning, flexible framework – but even more so in my role as a member of the general public. Self-regulation has been a key factor in the long-term profitability of Swedish companies, and, as a result, in the development of the welfare sector in one of the world's most export-dependent countries.

In order to ensure that the Swedish corporate governance model is not jeopardised "from within", i.e. at national level, we must ensure that there is no reason to question it. The Swedish Corporate Governance Board does this by maintaining and developing the corporate governance code that is so widely established and supported by producers and consumers of corporate information as a result of companies' application of the Code – either by adhering to the rules strictly or by deviating from them but explaining how and why. Furthermore, we safeguard self-regulation by remembering that the term consists of two parts:

- Self, meaning that, in addition to laws and regulations, the bodies that make up the Association for Generally Accepted Principles in the Securities Market must be allowed to formulate the conditions necessary for a dynamic, profitable and responsible corporate sector, and
- Regulation, meaning that clear rules in a number of areas need to be formulated and adhered to (and if not, action must be taken). "Self" is therefore not an excuse that allows you to do what you want and/or things that happen to benefit your own interests and bank balance.

I would like to underline strongly that, contrary to many regulation enthusiasts, I believe a system based on well-functioning self-regulation will be more successful and sustainable than one which has been (over-)regulated. The latter often results in people abiding by laws as closely as possible, but then finding ways to get around the regulations, (frequently because strictly worded laws and rules in principle are never adapted to individual circumstances). Functioning self-regulatory systems on the other hand are built on norms that are primarily held together by the strongest glue of all, the power of the social contract. That is the reason why the communities I visit when I am at our family's holiday home in the mountains of northern Sweden function just as well as any other, even though it is at least 150 kilometres to the nearest police station, (and the police could well be busy a long way in the opposite direction!). And that is why the Swedish corporate sector generally fulfils high expectations of responsible business.

Unfortunately, I have to admit that good behaviour doesn't always suffice. The EU bureaucracy's occasionally uncontrolled enthusiasm for writing new rules currently features proposals that both in individual cases and as a whole threaten the entire Swedish corporate governance model. These are issues that the Swedish Corporate Governance Board will be paying close attention to in 2014. And it is my hope that the broad consensus between the corporate sector, politicians and legislators will help us to continue to defend the Swedish model.

Other key issues in the coming year are the revision of the Swedish Corporate Governance Code, a review of the takeover rules and private placements, where the Board is in the process of writing new rules.

Finally, I would like to take this opportunity to thank my predecessor as Chair of the Board, Hans Dalborg, for his invaluable work on behalf of the Swedish corporate sector and Swedish self-regulation. In the 2000s, when I myself was an outspoken critic of the new Code, I never appreciated the enormous job that Hans and his Corporate Governance Board colleagues did when they saved us from something a great deal worse. And with the introduction of the ingenious "comply or explain" rule, as well as the extensive and important revision of the Code in 2008, they created a system that has been accepted completely by all stakeholders. That includes the undersigned, whose 180 degree turn was so obviously genuine that I was offered the impossible task of taking over after Hans. I promise that I will do my best – not least by continuing to work in Hans' spirit.

Stockholm, June 2014

Arne Karlsson
Chair of the Board

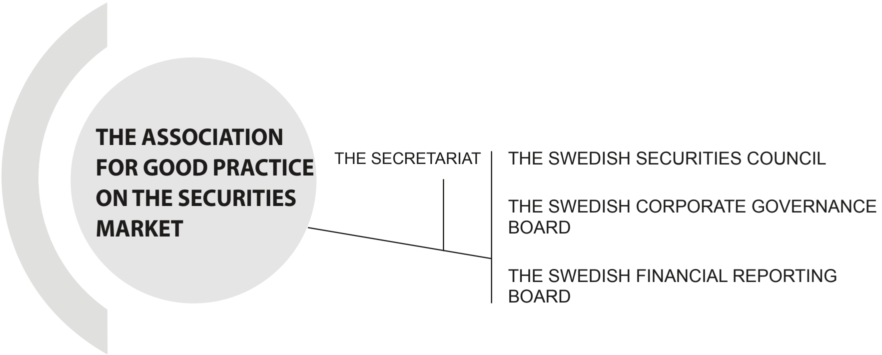
I. ACTIVITY REPORT

This part of the annual report describes the work of the Board during 2013–2014 and discusses current issues regarding the Code and Swedish corporate governance in general.

The Mission of the Swedish Corporate Governance Board

The Board is one of three bodies that constitute the Association for Generally Accepted Principles in the Securities Market, an association set up in 2005 to oversee self-regulation within the securities market. The other two bodies in the association are the Swedish Securities Council and the Swedish Financial Reporting Board. The members of the association are a number of organisations in the private corporate sector. See the illustration below and www.godsedpavpmarknaden.se/in-english__13 for more details.

The original and still primary role of the Board 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, where the Board has recently proposed new rules for mergers and merger-like processes. The Board is also working on further changes to the takeover rules, as well as new rules on private placements in listed companies.



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

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

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

- monitor 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.

The Work of the Board during the Year

In 2013, the Board consisted of the Chair, Hans Dalborg, Carl Bennet, Staffan Bohman, 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 continued as a co-opted member of the Board. Lars Thalén continued to act as a consultant and adviser on information issues. No changes took place at the parent organisation's annual meeting in May 2013, although Arne Karlsson was elected Chair of the Board, at which point Hans Dalborg left the Swedish Corporate Governance Board.

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

Follow up of the Code and Swedish corporate governance

In order to monitor that the Code is working as intended and to ascertain whether any modifications to the Code should be considered, the Board regularly conducts a variety of surveys of how the rules of the Code are applied in practice. The most important of these is its examination of Code companies' corporate governance reports, which it has carried out every year since the original version of the Code was introduced in 2005.

Nine surveys have now been carried out in this series, using a method that has been largely unchanged from year to year. This provides excellent opportunities for comparison during the whole period since the original Code came into force. The results of his year's survey are presented in Section II of the report.

Last year's survey showed that, while companies maintain a high level of ambition in their application of the Code, the number of explanations of non-compliance having good information content was considerably lower than in previous years. A new development in 2010 was that the content of corporate governance reports and companies' websites was examined against the background of legal and Code requirements. Also in this respect, last year's survey revealed that companies still had some work to do in order to fulfil all the requirements concerning detailed information. With this in mind, the Board wrote a letter in autumn 2013 to every Code company that the survey showed had not fulfilled all these requirements in order to bring the companies' attention to any shortcomings in their reporting. This letter led to a debate about the Code and its rules with many companies, after which the Board discovered that many companies had complied with the rules of the Code and that the survey was not complete in all aspects.

This year's survey has therefore been subject to a number of checks and balances to ensure that its results provide a fair picture. Happily, it shows improvements in most aspects regarding companies' corporate governance reporting, not least when it comes to the reporting of non-compliance. The number of deviations from the Code rules, however, has decreased, which is worrying. A detailed account of the 2012 survey can be found later in this annual report.

Another consequence of last year's survey was that the Board took the opportunity to arrange a number of roundtable discussions on the Code. See below for more details.

Code review in 2014

In order to investigate whether there is reason to make changes to the Swedish Corporate Governance Code beyond the implementation of issued instructions and the odd editorial change that has been brought the Board's attention since the last revision of the Code in 2010, the Board has conducted a number of activities. These include roundtable discussions, invitations to submit opinions, a top level symposium and internal discussions within the Corporate Governance Board.

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 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 the opportunity.

Additionally, the Board discussed possible changes to the Code at its top level symposium in February 2014. See below for further details.

Also, the Board discussed in detail the need for revisions to the Code at its scheduled meetings in autumn 2013 and spring 2014, both in the light of the views that had been collected and the various regulatory initiatives coming from the European Commission.

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 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 are felt necessary, with a view to presenting them around the turn of the year. The meeting also decided to bring forward the announcement of changes aimed at improving the gender balance on the boards of listed companies, an issue that had been on the agenda at an extraordinary Board meeting in April 2014.

Top level symposium

On 10 February 2014, the Board arranged a top level symposium at IVA in Stockholm, with almost 100 people from corporate governance functions. After opening addresses by Arne Karlsson, the new Chair of the Corporate Governance Board and the Swedish Minister for Financial Markets, Peter Norman, 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 Board member Carl Bennet, 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. The symposium ended with the Chair of the Association for Generally Accepted Principles in the Securities Market, Magnus Hall, thanking Hans Dalborg for his work as Chair of the Corporate Governance Board.

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. The latest version of the rules was introduced on 1 July 2012.

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 buyer in a takeover bid – 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 come into effect on 1 July 2014, both on the regulated stock markets and on the trading platforms.

The working group has been given an extended mandate to allow it to handle proposed changes to the takeover rules in 2014.

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 some 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 preparatory 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, proposes 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.

The Board has appointed a working group with eleven participants under the leadership of Board member Tomas Nicolin, Professor Rolf Skog, Executive Director of the Swedish Securities Council, and Björn Kristiansson Executive Director of the Board. The working group is expected to submit a proposed recommendation in autumn 2014.

Referrals etc.

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

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

In 2013, the Board submitted written comments on

- proposed changes to rules concerning direct placements in listed companies. As the Ministry's memorandum contains a proposal that the Board should issue rules in this area, the memorandum is discussed in more detail above,

- a proposed directive concerning non-financial reporting, which is also discussed in more detail below under the heading Action plan on corporate governance in listed companies and company law,
- Ministry of Finance Memorandum Ds 2013:16 on prospectus liability,
- the Swedish Financial Supervisory Authority's proposed new regulations and recommendations regarding governance, risk management and controls in finance companies, and
- Ministry of Finance Report SOU 2013:16 on stronger capital requirements rules, with regard to the implementation of EU Directive CRD4. This is dealt with in more detail below.

So far in 2014, the Board has submitted comments on the European Commission's recommendations on corporate governance and proposed changes to the directive on shareholder rights. These are covered in more detail below under the heading Action plan on corporate governance in listed companies and company law. The Board has also submitted comments on a memorandum regarding sanctions within CRD4, which is described in more detail below.

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

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 are supported by the Board.

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:

1) enhancing transparency;
2) engaging shareholders;
3) 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, expressing support for the requirements concerning CSR reports. However, the Board does not believe that the proposal concerning disclosure of diversity policy should be implemented. The amendment to the Directive has now been implemented.

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 shareholders' rights directive and changes to different securities law directives. The aim is 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 the company's 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, in this case on the subject of remunerations, to the Swedish Ministry of Justice.

On 9 April, the Commission presented its recommendation and proposed directive amendments.

The Commission would also like to examine more closely the meaning of the concept 'acting in concert' so that rules which use this term do not prevent shareholder cooperation on corporate governance issues. This definition is used, for instance, when discussing mandatory bids and flagging. Finally, there is also a proposal on encouraging employee share ownership.

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

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

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

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

International and Nordic work

As in previous years, the Board was an active participant in international debate on corporate governance issues in 2013, 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 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.

Another new initiative during the corporate governance year was a renewed Nordic cooperation. The Norwegian equivalent of the Board, NUES, invited representatives of the code issuing bodies in Denmark, Sweden, Finland and Iceland to a two day seminar in Oslo in March 2013. The intention is that these meetings will continue to be held, with the venue rotating among the Nordic countries. The Board has invited its Nordic colleagues to a meeting in Stockholm in August 2014.

The Swedish Corporate Governance Board also supports a project run by the Centre for Business and Policy Studies, SNS, to define the Nordic corporate governance model. The project is led by Per Lekvall, a member and former Executive Director of the Board and member of the ecoDa Policy Committee. More information on this project can be found at http://www.sns.se/artikel/nordic-model-corporate-governance.

Key issues for 2014

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

As the action plan generates concrete proposals from the Commission, these will need to be scrutinised and commented upon by the Board. The Board intends to be active in influencing the content of the rules as much as possible. As can be seen from the above summary of the action plan, there will be a large number of initiatives in many different areas before the end of the present Commission's mandate in October 2014. Currently, the European Commission's recommendation on corporate governance is under review, as well as proposed changes to the directive of shareholders' rights. The Board's Executive Director has also been appointed as a specialist in the study on how to implement EU regulations and EU directives on auditors and auditing. During the implementation phase, some of the rules are likely to be referred to the Board.

Review and evaluation of the Code

The most recent update of the Swedish Corporate Governance Code was carried out in spring 2010, and the Board has announced a new review of the rules of the Code, even those which are not affected by the work of the European Commission. As outlined above, the Board has received a great deal of valuable input regarding the Code through roundtable meetings, an open referral process and its symposium. There are also three Board Instructions that should be integrated into the Code.

The issue of gender balance on the boards of listed companies is still a hot topic, though not through European Community legislation on quotas. As boards of listed companies fall within the Corporate Governance Board's jurisdiction, the Board has stated that the issue of gender equality in the corporate sector is a high priority, and rule changes to achieve greater gender balance are a part of its work to update the Code.

The Board has set up an internal working group to draft changes to the rules and hopes to present a proposed revised Code towards the end of 2014 or early in 2015.

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 be stronger and carry more weight than the views of the individual countries.

Changes to the takeover rules

In April 2014, the Board presented a proposal to supplement the takeover rules with rules on mergers and merger-like processes. During the review process, a number of views on the takeover rules emerged that were not directly relevant to the proposed merger rules. In order to avoid delaying the proposals, the Board's working group decided to focus on completing the work on merger processes and then request an extension of its mandate in order to examine other proposed changes. The Board granted an extension to the working group's mandate in May 2014, and with the support of its reference group, it expects to submit further proposals regarding rule changes during autumn 2014.

All decisions on amendments to the takeover rules are made by the NASDAQ OMX Stockholm and NGM stock exchanges. Takeover rules for the First North, NGM MTF and AktieTorget trading platforms are issued directly by the Swedish Corporate Governance Board.

Private placements in listed companies

As outlined above, the Board's working group is expected to present a proposed recommendation regarding private placements in listed companies in autumn 2014.

II. APPLICATION OF THE CODE IN 2013

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 and corporate governance reports. For the fourth consecutive year, the content of corporate governance reports has also been analysed in relation to the requirements of the Code and legislation, as has the corporate governance information on companies' websites. For the second consecutive year, the Board has also examined the information value of nomination committees' statements explaining their proposed candidates to the board of directors, as well as that of boards' reporting of remunerations and their reports on internal controls. The survey was carried out on behalf of the Corporate Governance Board by Nordic Investor Services. The results are summarised below. Also in this section, there is a presentation of the Swedish Securities Council's and the stock exchange disciplinary committees' approaches to Code issues.

Companies' application of the Code

Executive summary

This year's survey shows that companies' reporting on corporate governance issues has improved considerably. The 2012 survey, however, broke the improving trend, with worse results than in previous years, and the 2013 survey shows a return to the previous curve of steadily improving corporate governance reporting. This year, companies have shown a high level of ambition when it comes to applying the Code, even though a trend towards poorer quality of reporting on many matters can be detected. There are, however, still many shortcomings in the details of how companies report on their corporate governance in their corporate governance reports and on their websites. Far too many companies fail to provide all the information that is required by the Annual Accounts Act and the Code. There is therefore still a great deal of room for improvement.

The number of deviations from the Code stopped falling last year, but this trend has not continued this year. This year's survey shows fewer reported deviations at fewer companies. Such a development can be interpreted both positively and negatively. The development is positive in as much as the rules of the Code are being respected and the standard of corporate governance reporting by listed companies should therefore be improved. However, the development is negative against the background of the Code's aim to make companies reflect and bring transparency to their corporate governance. The comply or explain principle on which the Code is based assumes that corporate governance is something fundamentally individual to each company, and even if the behaviour of companies means that they apply the majority of the rules in the Code, there should 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.

A major change for the worse in last year's survey concerned the information value of explanations of non-compliance and other mandatory statements, where the percentage of informative explanations had fallen significantly. Fortunately, this has now been reversed. There has been a marked improvement in the information value of all types of statement. As described below, part of the explanation for last year's dip may have been higher expectations on the part of those surveying the reports. 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 companies strive to achieve gender balance on the boards of listed companies. Although there has been a marked improvement since last year's survey, the results are still deeply unsatisfactory. For example, more than half of the nomination committees surveyed did not clearly substantiate their proposals in relation to the Code's requirements concerning gender.

Aims and methods

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

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

The basis for the study is companies' own descriptions of how they have applied the Code in the corporate governance reports that are required by the Annual Accounts Act, in other parts of their annual reports and in the information on their websites. For the past three 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 2013. 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

Table 1. Number of surveyed companies

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

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

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

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

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 2013, there were 263 companies whose shares or SDRs were available for trade on a regulated market in Sweden. Of these, 253 were listed on NASDAQ OMX Stockholm and 10 on NGM Equity. Of those listed on NASDAQ OMX Stockholm, 19 were foreign companies, whereas none of the companies listed on NGM Equity were. Of the 19 foreign companies, eight have declared that they apply the Swedish Code, and these eight were therefore included in the survey. The remaining eleven companies, who have declared that they apply another code, were not included in the survey. 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 and one the Swiss.

As well as these 11 foreign countries, five companies, four listed on NASDAQ OMX and one on NGM Equity, were omitted from the survey, because their fiscal year does not follow the calendar year (three companies) or because they were no longer listed on the stock exchange (two companies). This meant that the number of companies actually included in the survey was 247, of which 238 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. Seven companies chose to publish their corporate governance report on their websites only, compared with ten companies in the previous year.[5] Of the vast majority of companies which include their corporate governance report in the printed annual report, around 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. The previous trend of increasing

Table 2. How is the corporate governance report presented?

	Number				Percentage			
	2013	2012	2011	2010	2013	2012	2011	2010
In the directors' report in the annual report	117	141	126	106	47%	57%	51%	42%
A separate report within the annual report	118	96	110	125	48%	39%	44%	50%
Only on the website	7	10	8	7	3%	4%	3%	3%
Unclear *)	5	0	4	14	2%	0%	2%	6%
Total	247	247	248	252	100%	100%	100%	100%

*) Companies with a secondary listing on NASDAQ OMX Stockholm.

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.

numbers of companies choosing to include their corporate governance reports in their directors' reports has thus been broken.

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)] Three companies failed to provide an internal controls report this year, while it must be regarded as unclear whether a further five companies fulfilled the requirement. See Table 3. This is an improvement on previous years. The Annual Accounts Act makes it a legal requirement for companies to report on their internal controls, but two of the three companies without internal controls reports are foreign, which may provide an explanation. The internal controls reports vary in their scope, from short summaries within the corporate governance report to separate reports. For the second time, the Board's survey has assessed the information value of internal controls reports, and the results, illustrated in Table 3a, show a clear improvement, although around 10 per cent of the companies surveyed have significant work to do.

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

	Number					Percentage				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
Yes	239	234	245	234	244	97%	95%	99%	98%	97%
No	3	5	3	4	8	1%	2%	1%	2%	3%
Partly	5	8	0	0	0	2%	3%			
Total	247	247	248	238	252	100%	100%	100%	100%	100%

Table 3a. Information value of the internal controls report

	Number		Percentage	
	2013	2012	2013	2012
Good	97	40	39%	16%
Acceptable	122	177	49%	72%
Insufficient	25	28	10%	11%
Not applicable	3	2	1%	1%
Total	247	247	100%	100%

Table 3b.Are the board's reasons for not conducting an internal audit presented? Information value?

	2013	Percentage	2012	Percentage
Yes, reasons presented	182	74%	171	69%
Information value... Good	*56*	*31%*	*22*	*13%*
Acceptable	*118*	*65%*	*129*	*75%*
Insufficient	*8*	*4%*	*20*	*12%*
No reasons presented	14	6%	17	7%
Partial explanation	1	0%	2	1%
Unclear	0	0%	0	0%
Not applicable/ own internal auditor	50	20%	57	23%
Total	247	100%	247	100%

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

	Number		Percentage	
	2013	2012	2013	2012
Yes	238	235	97%	95%
No	3	6	1%	2%
No information / unclear	6	6	2%	3%
Total	247	247	100%	100%

Table 5. How was the corporate governance report reviewed?

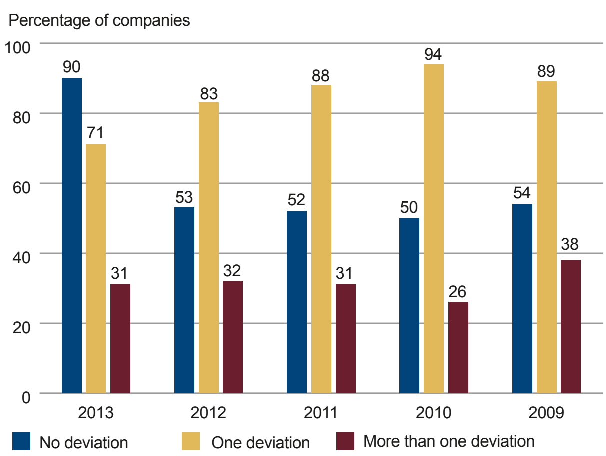
	2013	Percentage	2012	Percentage
General review	168	68%	161	65%
Detailed review	70	28%	73	30%
Unclear	9	4%	13	5%
Total	247	100%	247	100%

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

Code rule 7.5 states that a company which has not set up an internal audit are to explain the company board's position and reasons in the report on internal controls. Just over 20 per cent of the surveyed companies conduct an internal audit. Of the just under 80 per cent of companies that have chosen not to conduct internal audits, the boards of fifteen companies have not provided an explanation for this. For the remaining 181 companies, the information value of the explanations in the vast majority of cases is good or acceptable, while just eight companies have provided insufficient explanation. This is also a marked improvement compared with previous years. See Table 3b.

Since 2010, auditor review of corporate governance reports is now mandatory according to the Companies Act and the Annual Accounts Act.[7] See Table 4. Three companies have not reported that their corporate governance reports were reviewed by their auditors, and for a further six companies, it is not clear whether such a review took place. Six of these nine companies, i.e. two thirds, were not Swedish, which may explain some of the non-compliance. For the three Swedish companies that have not reported clearly that auditor review took place, the question is

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



2013: 251 companies 2012: 247 companies 2011: 248 companies
2010: 238 companies 2009: 252 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.

[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.

whether this means they have broken the regulations by failing to review or simply failed to report the review, which in itself is a breach of the Code.[8] The proportion of corporate governance reports that were reviewed in detail by the company auditors was around 30 per cent, while the rest were subjected to a general review, which is in line with last year's results. See Table 5.

Reported non-compliance

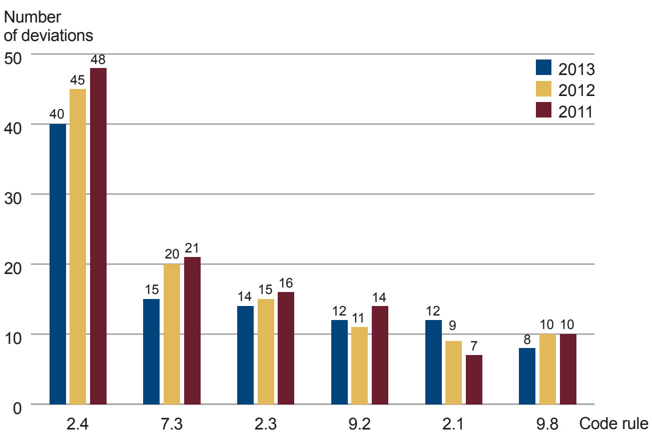
Companies that apply the Code are not obliged to comply with every rule. They are free to choose alternative solutions provided each case of non-compliance is clearly described and justified. It is not the aim of the Corporate Governance Board that as many companies as possible comply with every rule 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 worrying. Diagram 1 shows the proportion of surveyed companies that have reported instances of non-compliance since 2009. The proportion of companies that reported more than one instance of non-compliance fell marginally from 13 per cent in 2012 to 12 per cent in 2013, meaning that the remaining 88 per cent of companies reported no more than one deviation from the Code rules. It is notable that of the 31 companies reporting more than one deviation, one company reported six instances, one company reported four instances, four companies reported three instances and the remaining 25 reported two, which means a lower total of deviations from Code rules than in 2012. The proportion of companies reporting a single deviation from the Code also fell sharply, from 33.5 to 28 per cent. More than half of the surveyed companies, 58 per cent, or 149 companies, reported no deviations at all in 2013, which is a substantial increase compared with the previous year's 53 per cent, or 132 companies.

The downward trend of non-compliance has continued for a number of years, and there is a danger that it will be exacerbated if the EU recommendation on corporate governance outlined elsewhere in this report becomes a reality. 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 143 deviations from 23 different rules were reported in 2013, 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.

Diagram 2. Instances of non-compliance per Code rule



Which rules do companies not comply with?

Table 7 shows the number of deviations per rule from which deviation has been reported since 2011. The numbers correspond to the rule numbers in the current Code. The five 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. Almost 16 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

Table 6. Reported non-compliance

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

lead the work of the committee. In some cases, more than one of several members of the board who were on the committee were not independent of major shareholders, and in a small number of companies, members of the board formed a majority on the nomination committee. Non-compliance with this rule is most common in companies with a strong concentration of ownership, often with the general explanation that it would otherwise be difficult or impossible for a private individual to combine the roles of major shareholder and active owner through participation on the board and on the nomination committee.

The rule with the second-highest frequency of non-compliance was again rule 7.3, concerning audit committees. Of the companies surveyed, 15 chose to appoint an audit committee with just two members rather than the three members required by the Code, all stating that they did so because the board is small and/or because it is considered that this is the most efficient way to carry out the 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 2013. 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 reported non-compliance with rule 9.2, regarding the composition of remuneration committees. In most cases, this involved the CEO or another person that could not be considered independent in relation to the company and its executive management being on the committee. Also here, the most common explanation is that these individuals' competence or investment holding in the company justified their membership of the committee.

The Code rule with the fifth greatest number of deviations in 2012 was rule 9.8, concerning incentive programmes. In 2013, just eight companies deviated from that rule, while twelve companies deviated from Code rule 2.1, which states that the company is to have a nomination committee. Every company that reported non-compliance with rule 2.1 had no nomination committee. In many cases, the company reports that it has a dominant main shareholder who presents a proposal to the company board before the shareholders' meeting, so a nomination committee is not necessary. Whether it is to be regarded as applying generally accepted principles on the stock market to deviate from such a central regulation in the Code has recently been the subject of lively debate, but formally, the

Table 7. Number of deviations from individual Code rules

Rule	2013	Rule	2012	Rule	2011
2.4	40	**2.4**	45	**2.4**	48
7.3	15	**7.3**	20	**7.3**	21
2.3	14	**2.3**	15	**2.3**	16
9.2	12	**9.2**	11	**9.2**	14
2.1	12	**9.8**	10	**9.8**	10
9.8	8	**7.6**	9	**7.6**	8
7.6	7	**2.1**	9	**2.1**	7
2.5	6	**2.5**	9	**2.5**	7
4.2	5	**4.2**	5	**4.2**	5
4.3	4	**4.4**	4	**7.5**	4
1.5	4	**9.1**	3	**4.4**	2
7.5	2	**7.5**	3	**4.3**	2
2.6	2	**1.5**	3	**1.5**	1
4.4	2	**4.3**	2	**2.6**	1
4.5	2	**1.1**	2	**4.1**	1
1.1	1	**4.1**	1	**6.2**	1
1.3	1	**8.2**	1	**8.2**	1
1.7	1	**1.4**	1	**9.3**	1
6.1	1	**1.3**	1	**1.3**	1
9.5	1	**3.1**	1	**3.1**	1
9.6	1	**4.5**	1	**1.1**	1
8.2	1	**8.1**	1		
10.3	1	**9.5**	1		
		9.6	1		
		9.9	1		
Total	143	**Total**	160	**Total**	153

Code does not prevent companies from deviating from any Code rules they wish, as long as the non-compliance is reported and explained.

There were almost no “new” explanations in 2013, i.e. explanations of non-compliance with rules that have previously had no deviation. The only thing to note here is that two companies deviated from the requirement to present the nomination committee’s explanatory statement to the shareholders’ meeting (Code rule 2.6), which has not happened before.

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 introduced into 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.

Swedish companies’ reporting of non-compliance has improved to a certain extent since 2012. Just seven com-

Diagram 3. The information value of explanations, number

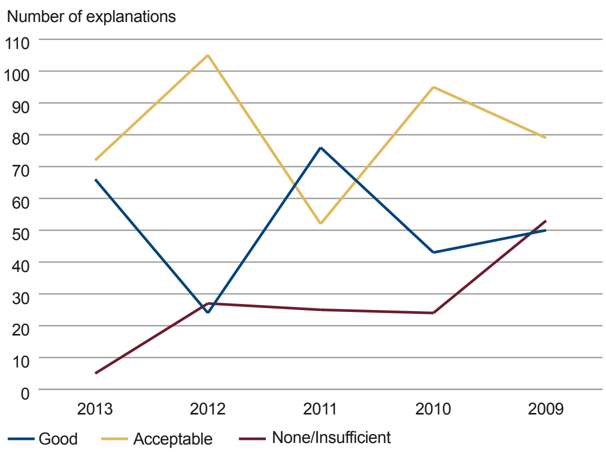


Diagram 4. The information value of explanations, trend

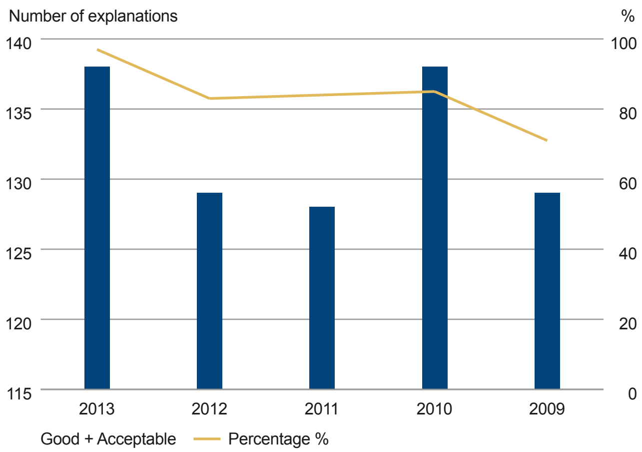


Table 8. The information value of explanations of non-compliance

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

panies, including two that did so twice, failed to explain their reasons for deviating from a rule, which as a percentage is an improvement on 2012. However, all but two of the surveyed companies, (which also failed to report their deviations at all), described their alternative solutions, which is in line with last year. This means that a total of seven companies failed to fulfil the Code's requirements regarding the reporting of non-compliance in 2013, which is a significant improvement compared with the 17 companies which failed to do so in 2012. This means that just under three 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 been made to assess the quality of explanations offered. This necessarily involves a large element of subjectivity, but as the evaluation has followed the same format and criteria each year, any trends observed can be regarded as reasonably reliable. It should be noted, however, that the bar for what is considered a good explanation tends to be raised each year, partly as the general quality of corporate governance reporting improves, and partly because those evaluating the reports have been faced with so many explanations over the years that they tend to be better at seeing through flimsy explanations and appreciating short but substantive explanations.

The 2010 and 2011 surveys showed a significant improvement in information quality. Unfortunately, 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 16 per cent in 2012 to 46 per cent in 2013. This can be regarded as a rebound after last year's bad result, when the proportion of explanations considered good fell from 50 per cent to 16 per cent between 2011 and 2012. See Table 8 and Diagrams 3 and 4.

It is not the opinion of the Corporate Governance Board that such a substantial reduction in the quality of

Table 9. The detailed content of corporate governance reports

	Yes	No	Partly
Does the report contain information on the nomination committee?			
Composition	231	14	1
Representation	213	29	4
Does the report contain information on board members?			
Age	246	1	0
Educational background	229	11	7
Professional experience	193	43	11
Work performed for the company	247	0	0
Other professional commitments	243	3	1
Shareholding in the company	246	1	0
Independence	238	7	2
Year of election	245	2	0

	Yes	No	Partly
Does the report contain information on the board?			
Allocation of tasks	247	0	0
Number of meetings	244	2	1
Attendance	241	3	2
Does the report contain information on board committees?			
Tasks & decision-making authority	194	32	21
Number of meetings	158	65	24
Attendance	151	62	18

	Yes	No	Unclear
Does the report contain information on the CEO?			
Age	241	6	0
Educational background	223	24	0
Professional experience	198	49	0
Professional commitments outside the company	154	93	0
Shareholding in the company	244	3	0
Shareholding in adjacent companies	28	219	0

corporate governance reporting as shown in the 2012 survey actually took place. The primary explanation is probably that there was a stricter assessment by those who conducted the evaluation in 2012, and the 2013 survey saw a return to the previous yardstick. Despite this, the 2013 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 third consecutive year, the content of companies' corporate governance reports has been examined against the background of the requirements stipulated in the Annual Accounts Act and the Code. The Act requires, for example, that companies report which corporate governance code they apply. Every company but two 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 (page 19) 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, around 20 did not state who had appointed members of their nomination committees, and almost 50 companies did not list the previous professional experience of their chief executive officers. Breaches regarding the last two examples were pointed out last year, and this led to some improvement in 2013.

Another Code requirement is that companies who have been found to have committed breaches against the rules of the stock exchange or generally accepted principles in the securities market by the Stock Exchange Disciplinary

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

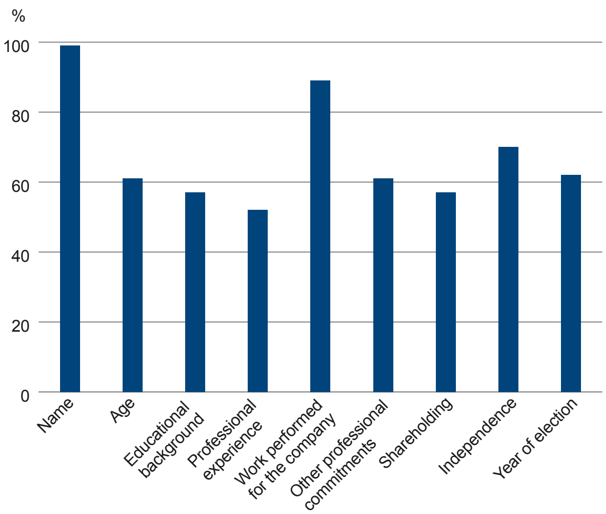


Table 10. Is corporate governance information easy to find on the company's website?

2014	Number	Percentage
Yes	185	75%
Acceptable	48	19%
No	14	6%
Not applicable	0	0%
Total	247	100%

Table 11. Detailed information on company websites

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%

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

[9] Code rule 10.2.

Committee or the Swedish Securities Council during the financial year are to report this in their corporate governance report. Of the four companies to which this rule applied, three provided information about the breach, while one company did not comply with it in 2013.

Corporate governance information on company websites

For the fourth 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.

Rule 10.3 of the Code requires companies to devote a separate section of their websites to corporate governance information. This requirement was fulfilled by over 98 per cent of the companies surveyed. Six 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 just 70 per cent of the companies surveyed have easily accessible corporate governance information, which is a marked improvement on last year's figure of 40 per cent. A total of 6 per cent of the companies did not fulfil the accessibility criteria, while the standard for the remaining 19 per cent was acceptable. This indicates that there is still room for improvement.

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. Only one company did not fulfil the latter requirement, while the articles of association of the remaining 246 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 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, almost a third of the companies surveyed failed completely or partly to issue such a statement. This year, the figure has fallen to 20 per cent. Even though this is an improvement, it is remarkable that one company in every five did not fulfil the requirements of a Code rule that has been in force since 2008. Even more remarkable is that almost 60 per cent of the nomination committees did not mention gender balance in their nominations to the board, something that was examined specifically in this year's survey. Even so, this is an improvement on last year, where as many as 80 per cent of companies' nomination committees failed to make any comment on

[10] See Code rule 10.3, paragraph 2.
[11] See Code rule 2.6, paragraph 2.

gender balance – 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 take further steps to improve gender balance on the boards of listed companies, including demands and activities directed specifically at nomination committees.

The assessment information value of these statements was divided up further to look separately at the issues of appropriate composition and gender balance. On the issue of appropriate board composition, there was a marked improvement in the information value of statements compared with last year. In 2013 the information value was deemed good in 17 per cent of the statements, while the equivalent figure this year has more than doubled to 40 per cent – see Table 13. The table shows, however, that the proportion of statements with insufficient information value remains at just over 10 per cent.

Only 6.5 per cent of statements issued in 2013on the proposed gender balance on boards were regarded has having good information value, while over 40 per cent of the statements issued (the total number of which was too few, as described above), were regarded as substandard – see Table 12. These figures improved considerably in 2014. Over 30 per cent of the statements issued on gender balance in 2014 have good information value, but the figure for statements issued, (the total number of which

Table 12. Nomination committee statements on gender balance on the board

Number of companies 2014	Yes	No	Partly	Not appli-cable/ not assessed	Total
Statement on gender balance	87	144	14	2	247

Percentage 2014	Yes	No	Partly	Not appli-cable/ not assessed	Total
Statement on gender balance	35%	58%	6%	1%	100%

Information value 2014	Good	Accep-table	Un-acceptable	Not applicable	Don't know
Information value of gender balance statements	31	30	44	140	2

Information value 2014 (percentage)	Good	Accep-table	Un-acceptable	Not applicable	Don't know
Information value of gender balance statements	13%	12%	18%	57%	1%

Table 13. Nomination committee statements on appropriacy of board composition

	Number 2014	Number 2013	Number 2012	Percentage of statements 2014	Percentage of statements 2013	Percentage of statements 2012	Percentage of companies surveyed 2014	Percentage of companies surveyed 2013	Percentage of companies surveyed 2012
Good	80	31	89	41%	17%	48%	32%	13%	34%
Acceptable	91	132	77	47%	72%	42%	37%	53%	29%
Unacceptable	23	20	18	12%	11%	10%	9%	8%	7%
Total: statement issued	**194**	**183**	**184**	**100%**	**100%**	**100%**	**79%**	**74%**	**70%**
Not applicable	51	58	64				21%	23%	24%
Not assessed	2	6	16				1%	2%	6%
Total	247	247	264				100%	100%	100%

was again too few this year, as described above), that were regarded as substandard remains above 40 per cent.

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.

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, 74 per cent of the companies surveyed published such information, which is a much higher figure than last year.

Finally, company websites are to provide information on the board's evaluation of remuneration within the company no later than two weeks before the annual general meeting.[12)] The evaluation is to cover ongoing variable remuneration programmes for executives and directors and those that have ended during the year; how the company's executive remuneration guidelines have been applied; and the current remuneration structures and remuneration levels within the company. This requirement was introduced in 2010 and the information was included in the survey for the first time in 2011.

Table 14 shows that there has been some improvement since last year, from around 60 per cent of the companies surveyed fulfilling this requirement last year to almost 70 per cent this year. 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.

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

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

2014	Yes	No	Partly	Not applicable	Total
Variable remuneration programmes	138	92	12	5	247
Remuneration policy	162	75	5	5	247
Remuneration structures and levels	141	93	8	5	247

Table 15. Information value of board evaluations of remuneration matters

2014	Good	Acceptable	Un-acceptable	Not applicable	No information
Variable remuneration programmes	46	70	33	94	4
Remuneration policy	21	82	65	75	4
Remuneration structures and levels	27	86	36	94	4

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

Interpreting the Code

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

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

The Swedish Securities Council did not issue any statements on the Code in 2013. 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 2013, 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.

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 two contributions.

- In the first article, Dan Brännström, Secretary General of FAR, the Swedish Institute for the Accountancy Profession, discusses how the new EU rules for the audit of listed and financial companies impacts Swedish corporate governance. The new regulations include requirements regarding auditing firm rotation, broader responsibility for audit committees and restrictions on the advice auditors can give, as well as a more transparent reporting process for auditors. As the article explains, this far-reaching detailed regulation poses a challenge to the Swedish model, with its tradition of self regulation and companies taking their own responsibility. It is also likely that the audit package will lead to increased costs for companies. Dan Brännström also takes up the greater requirements regarding oversight and sanctions that will also affect representatives of auditors' clients. The new rules are to be fully implemented by all EU member states by summer 2016.
- The second article is written by the outgoing Chair of the Swedish Corporate Governance Board, Hans Dalborg. He shares his highly personal reflections on his role and assignment within the Board, the purpose of corporate governance and the future of self regulation in the field of corporate governance.

The European Union's audit reform package challenges Swedish corporate governance

In spring 2014, the European Union's institutions approved a reform of company audits. A far-reaching and detailed regulatory framework on audits in listed and financial companies (or public interest enterprises – PIEs) will therefore be implemented in Sweden. There is no doubt that the audit reform will have a great impact on corporate governance and bring increased costs for companies.

Dan Brännström is Secretary General of FAR, the Swedish Institute for the Accountancy Profession. He worked previously as an auditor at EY. Dan Brännström is a frequent debater and speaker on corporate governance, accounting and auditing issues. In this article, he discusses how the EU's audit package will impact corporate governance.

In October 2010, the European Commission presented a green paper on company audits. The background to this was the finance crisis and the fact that auditors had not sounded the alarm in those banks that had subsequently folded. The far-reaching proposals, which also contained innovative ideas on the role of auditors, received a great deal of attention and resulted in 688 formal responses during its eight-week consultancy period. Simultaneously, an intensive process of opinion building was launched, not least by representatives of the auditing profession.

The aim of FAR, the Swedish Institute for the Accountancy Profession, during this process has been to safeguard the Swedish corporate governance model. We have argued for the rights of shareholders to play an active role in the election of auditors through nomination committees. FAR has also tried to slow down the expansion of the tasks and responsibilities of audit committees. At one point, for example, there was a proposal that the audit committee should approve the design of the audit report before it was presented to the shareholders' meeting, something that would be completely alien to how roles and responsibilities are divided according the Swedish model.

In November 2011, the European Commission presented its formal proposal for audit reform. The reform package included both amendments to the European Union's Statutory Audit Directive and new regulations on the audit of public interest enterprises.

At the same time, the Commission explained that the aim of the reform was to improve the quality of audits through such measures as

- Clarifying the role of the auditor.
- Reinforcing the impartiality and independence of the auditor.
- Improving the dynamics in the market segment for large corporations.
- Improving oversight of auditors.
- Facilitating cross-border auditing in the EU.
- Reducing unnecessary burdens on smaller companies.

Following parallel processes in the European Parliament and the Council of Ministers, formal negotiations between the institutions and the European Commission began in autumn 2013. After much discussion and a great deal of compromise, agreement was reached unexpectedly quickly in December 2013. This agreement was formally approved by the EU institutions in spring 2014.

The audit reform package contains no evidence of the original innovative ideas about changes to the audit process, such as encompassing sustainability issues. Instead, it is largely based on rules that have already been tested with varying degrees of success in different EU member states. In practice, much of the focus is on issues of competition and oversight. In principle, the substance of actual audits is unchanged.

In brief, the reform package means the following:

- A change of auditing firm - firm rotation - must take place within 10 years. Member states may decide on rotation after up to an additional 10 years if the audit is subject to new procurement. Alternatively, rotation can occur after up to an additional 14 years for joint audits.
- The audit committee is given a broader role and becomes in practice a fifth corporate body. The committee’s role is to include preparing for the election of auditors and monitoring the audit, as well as granting prior approval of the auditing firm to provide advice.
- Regarding the auditing firm's advice to audit clients, a "black list" of prohibited services has been drawn up. These include valuation assignments, design and implementation of internal controls, advice on financing and capital structure and many areas of tax advice. Advisory services are not to exceed 70 percent of the audit fee over a three year period.
- In the audit report, the auditor is always to state the most significant risks of material misstatement in corporate reporting. Auditors are also to summarise their actions as a result of these risks. This will eliminate standardised audit reports. Auditors are also to submit a statement on any uncertainties that may cause significant doubts about the firm's ability to continue operations.
- The audit reform package also includes expanded oversight requirements and penalties for violations of the new rules. These requirements apply not only auditors and auditing firms, but also to the listed and financial companies and representatives of said companies. It speaks of deterrent penalties of up to € 1 million for physical persons.

The audit reform is to be implemented in each EU country by the summer of 2016. The transitional rules for auditing firm rotation are applicable from the summer of 2014, however. These mean that if the audit contract has been in place for 20 years or more when the rules take effect, rotation must take place within 6 years. The first mandatory rotation will therefore take place in summer 2020. For audit agreements that have been in place for 11–20 years, rotation must take place within 9 years. For agreements that have been in place for shorter periods, less uncertainty exists regarding how the transitional rules are to apply. The European Commission’s interpretation is that rotation or procurement is required in 2016 if the auditing firm was appointed during the years 2003–2006. If the contract began in 2007, a change of auditor or procurement must take place in 2017 and so on. It is difficult to understand the logic that underlies this.

The fact that the audit reform package has been adopted does not mean that everything is clear. On the contrary, questions about how the rules are to be understood and applied come up constantly. The Swedish Government has recently commissioned Supreme Court Justice Kristina Ståhl to investigate how the rules should be applied in the Swedish environment. In the directive for the Swedish investigation, the government has indicated that it would like to see a more rapid rotation of auditing firms for financial companies compared with other companies to whom the reform applies. A pleasing feature is that the government responded positively to the request that - as far as possible – the audit reform package be implemented through self-regulation, for example through the Swedish Code of Corporate Governance.

The reform package impacts corporate governance in a variety of ways. At a general level, the detailed regulation reduces the scope for shareholder accountability. The expanded role of the audit committee also means a clear step in the direction of Anglo-Saxon corporate governance, even though a company can choose to allow the whole board of directors to carry out the tasks assigned to the committee.

Unfortunately, audit reform, with all its detailed regulation, means increased costs for companies and thereby undermines the competitiveness of EU’s corporate sector against other markets. It is worth bearing in mind that the United States has actually legislated against the introduction of auditing firm rotation, partly because the cost of rotation is not deemed to outweigh the benefit.

The restrictions placed on of advice to audit clients are also likely to lead to higher costs for companies. One reason of course is that the number of players decreases. It could be of particular concern during the procurement of auditing services, because the firm chosen to conduct the audit may not have provided prohibited advisory services during the year preceding the fiscal year to be audited.

That auditors will be more transparent in their audit report s is perceived as a positive development. The auditor's report will become less digital or black and white. The expansion of auditor reporting of the risks of material misstatement is also likely to lead to increased focus on the part of companies to prevent such risks.

Unfortunately, there are clear signs that corporate governance will become more difficult and more expensive as a result of extended oversight and new penalty sanctions for both natural and legal persons affected by the audit reform. Another factor is that it is to a great extent representatives of the company that are subject to audit, not the auditor, who must be responsible for ensuring that the new rules are applied correctly.

Furthermore, the audit reform package contains many compromises and member state options. The latter give countries some scope for adaptation to their local corporate governance models, but also increase the risk - contrary to the original intention - of deharmonisation, with different rules and application among the EU member states. This may mean that the practical consequences for individual groups of companies become especially troublesome and costly.

In order to ensure that the next audit reform genuinely is a reform and not just a package of detailed rules, the accountancy profession is working proactively to analyse how auditing services can be developed to meet tomorrow’s needs for trust, quality and transparency.

There are many indications that corporate reporting is moving towards integrated reporting, i.e. that financial information is integrated with areas such as sustainability information much more clearly than it is today. This also leads to the need for an integrated audit. Another trend points to a demand for more differentiated auditing services - "one size does not fit all" in a rapidly changing market.

This kind of work to develop auditing requires close collaboration and dialogue between all the actors in the market. The aim must be for audits to provide the greatest possible benefit for the individual company, the corporate sector and society as a whole.

An honour to serve the Swedish corporate sector

It was not an easy decision to accept the post of chair in the newly formed Swedish Corporate Governance Board and receive the first Swedish corporate governance code at a conference on 16 December 2004. But it was an honour, and I could fully support the fundamental principles in the code.

On April 4, 2003 at a Conference in Japan a year and a half before the Swedish code was ready and the Swedish Corporate Governance Board was formed, I summarized my view of corporate governance. In the speech, I used as my point of departure my experience of working at the Nordea banking group, which confirmed the usefulness of rules for good governance. From the presentation that Lars Thalén and I then put together then, there is good reason to repeat some fundamentals:

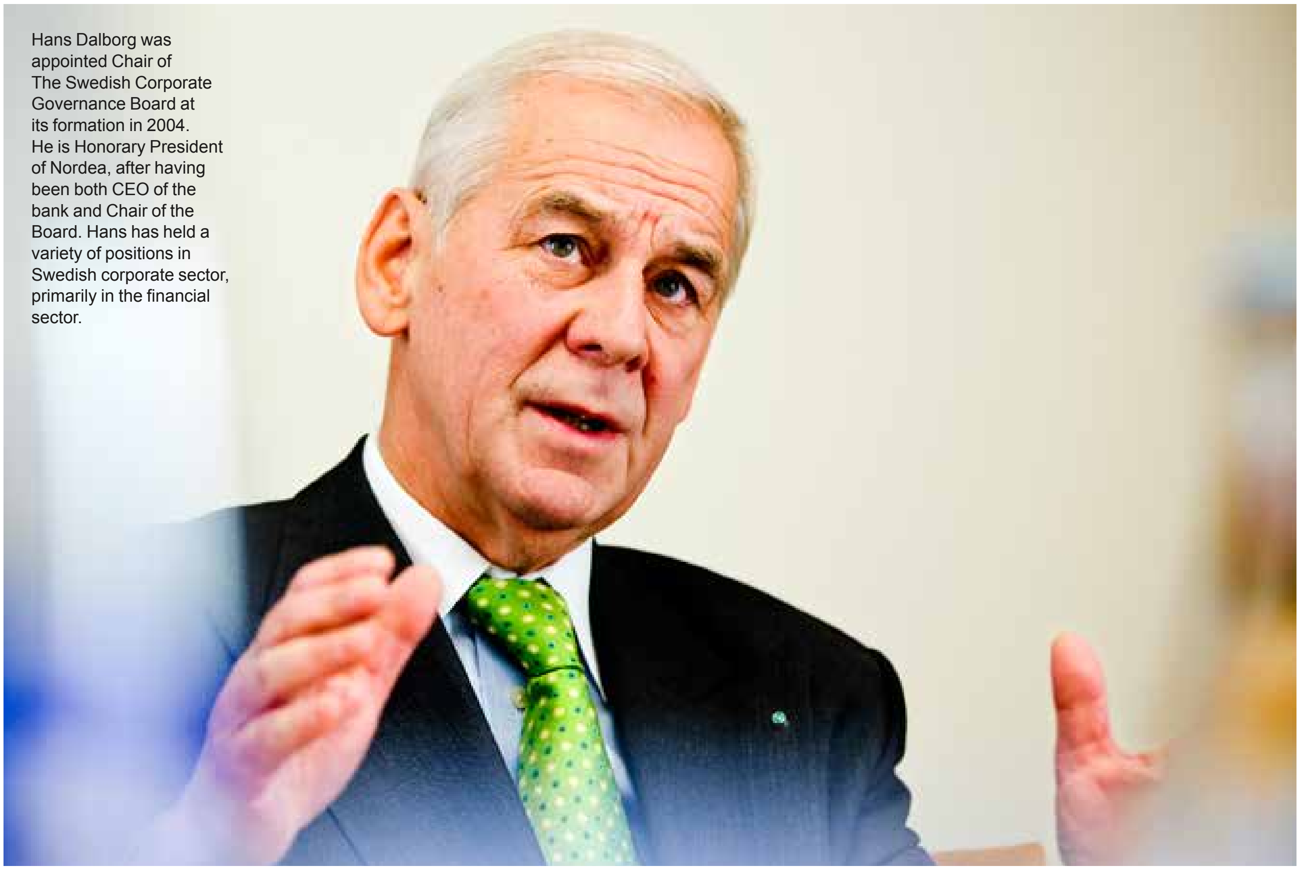
- Corporate governance is fundamentally about the legitimacy of the system - companies' license to operate and owners' right to manage their property. In our economic system, a democratic decision has been made to ensure that companies cannot be governed by political democracy, but by their owners.
- The mission of a company is to create value. In order for the shareholders to receive a return, the company needs to create value for customers and value for employees, and it needs to behave responsibly in the community.
- Good corporate governance is a good investment. Increasing numbers of investors have corporate governance policies and pay a premium for good corporate governance in the market and in individual companies.
- But there is no magic solution that fits all countries or companies. Corporate governance should be based on values and objectives and adapt legislation and rulemaking to different legal and market conditions. We accept that democratic countries can have different constitutions and that under any constitution there can be both good and bad political solutions. We should regard corporate governance in a similar manner.
- Too much regulation can be as damaging as too little. This applies to both laws and codes, although some corporate governance experts cry out for legislation and regulation for almost everything. Self-regulation, with its flexibility based on "comply or explain" is often preferable to legislation.
- The board of directors of a company is central to good corporate governance. It is more expertise in decision-making, i.e. generalists with sound judgment and courage, that is needed, not primarily expertise in niche areas of the company's business.
- And any system of corporate governance is only as good as the people who operate within it. Rules for good corporate governance are not an insurance against poor judgment. But they can help to expose idiocy and stop stupid decisions and actions earlier than otherwise.

Of course, I also wanted to fly the flag for the Nordic system, with its clear distinctions between the roles of the shareholders' meeting, the board of directors, the executive management and the auditors, who report to the owners.

A changed perception of the code

I thus went into the job at the Corporate Governance Board in order to contribute to the wellness of the corporate sector, not to be a police officer and not primarily because it was necessary in order to prevent legislation. But I knew that it was not terribly popular in all quarters of the corporate sector. There was good reason to question the level of detail in the first code and especially larger private owners did so - sometimes with great force.

It was therefore wise that the first code only applied to the 100 largest companies - otherwise a storm of protest from small and medium-sized enterprises would



Hans Dalborg was appointed Chair of The Swedish Corporate Governance Board at its formation in 2004. He is Honorary President of Nordea, after having been both CEO of the bank and Chair of the Board. Hans has held a variety of positions in Swedish corporate sector, primarily in the financial sector.

have been able to destroy standing of the code for years to come.

Over eight years on, perception of the code changed. Initially, it was often challenged as not only unnecessarily picky but also downright unnecessary. Today it is generally regarded as a guide so that companies do not have to reinvent the wheel over and over again and as a bulwark against the European Union's regulatory zeal and a guardian of Swedish corporate governance tradition.

Underlying this development are both the major changes that have occurred in the code and developments after financial crisis and the EU's interest in regulating both legislation and self-regulation in detail.

A broader, simpler code

After extensive work, a revised code came into force in July 2008. The biggest change was that the code was broadened to become applicable to all listed companies, i.e. all Swedish companies with shares on NASDAQ OMX Stockholm or NGM Equity.

For the code to be suitable for smaller companies with fewer administrative and legal resources, the code was slimmed down significantly. Matters that had come to be seen as unnecessary were removed, as well as rules that duplicated company law requirements.

But it was also tightened up in other areas, with new demands regarding election committees based on an extensive survey. They meant increased independence requirements for committee members and increased information requirements prior to shareholders' meetings, not least with regard to the code's requirement that an equal gender balance should be sought. Nomination committees were forced to explain in writing prior to the shareholders' meeting the reasons for their proposals, particularly on this issue. Unfortunately, this quickly became a routine matter in some quarters.

A new requirement that reports of deviation from the code are also to describe the solution chosen instead was also introduced. This has now been picked up in Europe and been included in the EU's ambition to regulate self-regulation.

The requirement for information on company websites about the articles of association, the board of directors, the auditors etc. was "transferred" from the Stockholm Stock Exchange's previous rules, as NASDAQ OMX wanted to have uniform rules for its Nordic exchanges, and these rules were only in the Swedish regulations.

It turned out that the simplified code did not create insurmountable teething problems, but rather quickly became a good set of guidelines for companies.

Remuneration rules

A new revised code came into force as early as February 1 2010. The Corporate Governance Board had been "invited" by the Swedish Ministry of Justice to deal with the European Commission's 2009 recommendation on remuneration to the directors of listed companies so that the recommendation would not become law.

Somewhat reluctantly, it must be said, this led to a new Chapter 9 of the Code. We did not believe that compensation issues really belonged in the code but rather there than in law.

At the same time, the code was adapted to the requirement for compulsory corporate governance reports with certain content requirements and a requirement for auditor review, which was introduced into the Annual Accounts Act as a result of an EU-Directive. It was also adapted to new rules on audit committees with specific competence requirements on one board member, which had been introduced into the Companies Act in accordance with an EU directive.

At the same time NASDAQ OMX Stockholm abolished the independence requirements for company board directors in its regulations for the same reasons as before, and these were included in the code.

Another important event was that the Corporate Governance Board took over the tasks of NBK, the Swedish Industry and Commerce Stock Exchange Committee, in May 2010. The only existing NBK regulations at that time were the takeover rules, but as a result of this change, the Corporate Governance Board received a mandate to write rules in other stock exchange law matters.

A collaborative Board

Commencing work at the Corporate Governance Board was a step into uncharted territory. Fortunately, the Board included directors who had participated in drawing up the corporate governance code.

But above all we could call upon people who had been involved in the groundwork: the Secretary of the Code Group, Per Lekvall, who became Executive Director of the Board; the legal expert involved in developing with the code, Bjorn Kristiansson, was deputy. Lars Thalén was brought in to make our work comprehensible to the outside world.

I mentioned the compensation rules. In this work, we were able to use Bjorn's bulging compendium of EU wishes as our starting point. In Michael Treschow's office, with its own ice cream dispenser, we toiled with how little of the EU's detailed regulation we could include.

I felt that everyone who was elected to the Board shared a great sense of responsibility and a strong desire to resolve all the issues in broad consensus. We never needed to put anything to a vote and there are no reservations recorded in the minutes. Decisions were reached through consensus and with concern for Swedish listed companies. Self-interest took a back seat.

It was notable that we developed common values. Self regulation is often preferable to legislation, because the principle of "comply or explain" can set the bar higher. Proprietary rights are fundamental - owners are to be responsible for the company's direction and appoint their representatives to its board of directors, and nomination committees are to be owner-managed. Transparency is a key - that which is done openly is more likely to be done correctly.

A living document

But like any regulation, the code is a living document based on the more enduring values and must be adjusted as the world changes.

Over the years I have worked with the corporate governance, the EU's ambitions in the area have been the greatest change, of course, and this is cause for concern. Most of the ideas and proposals that come from the European Commission are based on unfounded conclusions.

The first question mark surrounds the argument that financial crisis after the collapse of Lehman Brothers and the subsequent euro crisis was also a result of shortcomings in corporate governance in the financial sector in Europe. Often it was probably pure stupidity.

The toxic products that were developed in the United States cannot be blamed on European banks, even though a number of them foolishly bought them. In some cases, banks went out of control under their own steam, as in the case of Iceland, but the truth is that most

European banks were possibly victims of others' actions, but were just as often stabilising factors. Overconsumption, a faulty mortgage system and inflated sovereign debt in several euro-area countries are certainly not the fault of the financial sector, but of governments.

The second misconception is that the alleged shortcomings in corporate governance in the financial sector justify an invasion of corporate governance rules for all listed companies, not just those in the financial sector.

It is regrettable that these weak foundations allowed Brussels bureaucrats, many of whom have never set their foot in the corporate sector, to make up rules for both the member states' legislation and for corporate sector self regulation in member states.

I can understand that it is tempting to channel anger over economic disasters such as the Lehman crash and the euro collapse in Greece and other countries away from the Commission, monetary union and national governments. But now the politicians, not least our Swedish representatives in the EU, need to stand up for a dynamic corporate sector and the freedom of self regulation. EU regulation and self regulation at national level are two separate concepts. EU regulated self regulation is an impossibility

It is my hope that Swedish politicians wish to and have the strength to resist the regulatory fervour of Brussels and safeguard proprietary rights, a dynamics business sector and freedom for self-regulation.

Continued challenges

Naturally, conditions in other areas are changing too.

Information technology enables new forms of communication, and sooner or later this will certainly have consequences for disclosure and meeting formats. When technology allows increased transparency, this will probably be demanded. When you can vote using your mobile phone, the obligation to physically attend meetings can also be discussed.

The proportion of collective capital is growing. This channels demands for both return on investment and responsible, sustainable business. It is the same people who are saving for their pensions in broad funds who act as consumers. More and more companies realise that responsibility is profitable.

The importance and role in society of major corporations in society is increasing. A better educated population and active stakeholders are interested in what is happening in companies and often express a desire to influence them. In order to protect proprietary rights, the rights of owners to control companies, there will be growing demand for companies to take such responsibility.

One example is gender balance on the boards of listed companies, which is just the tip of the iceberg of gender inequality in salary levels and career opportunities. The code states clearly that gender balance is to be sought. It is my hope that it will be possible to bring about a development that eliminates the threat of legislated quotas, and that the many good examples of goal-oriented gender equality work will be followed so that the underlying the problem is solved. The shareholders who appoint boards have a great responsibility.

These macro trends will influence the conditions for the work of the Corporate Governance Board and for the code.

But micro issues can also require new solutions. Based on personal experience, I believe, for example, that nomination committees are going to need more information from boards about the work of the board, and perhaps also on the suitability of its composition.

And fundamental to self regulation is that the explanations of non-compliance really give genuine information on why the company has not complied and how it has chosen to resolve the issue instead. There is significant room for improvement in this area. Once again, it is a question of transparency.

Healthy and lively self regulation

There is value in stable rules. But also in rules that are adapted to the real world. These are the waters that self regulation must navigate, and I would like to include three fundamental principles.

"One size does not fit all." Safeguard Swedish and Nordic company law, with its clear division of roles between the different decision making bodies within the company. Make sure to legislate where it is unavoidable, but leave room for an ambitious national self regulation, or possibly one that is more coordinated across the Nordic region.

"If it ain't broke – don't fix it." Do not mess around with the rules if there is no need. Stand strong against bureaucratic meddling from Brussels.

"Stay nervous." When problems in corporate governance come to light, intervene. Only if the Corporate Governance Board provides guidance will everything that self governance is about be achieved: respect for the competitiveness of and trust in the corporate sector.

SWEDISH
CORPORATE
GOVERNANCE BOARD

Box 7680 | SE-103 95 Stockholm | Sweden
www.corporategovernanceboard.se

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