Ethos proxy voting guidelines 2024: main changes compared to the 2023 edition

Ethos' proxy voting guidelines serve as a basis for Ethos' analysis of general meetings. The 2024 version was approved by Ethos' Foundation Board in September 2023 and shall apply for all general meetings of listed companies covered by Ethos in Switzerland and abroad as of January 1, 2024.

Most of the changes have been made to reflect changes in Swiss legislation, namely:

- New requirements for sustainability and climate disclosures: the largest listed companies[1] will not only be required to disclose their non-financial data from the 2023 financial year but will also have to submit their sustainability report to a mandatory vote as of the 2024 annual general meeting (AGM). These new provisions (art. 964a to c of the Swiss Code of Obligations) address environmental issues, in particular CO2 targets, as well as social issues, employee-related issues, respect for human rights and combating corruption;
- The Swiss Ordinance on Climate Disclosures, which sets out the reporting obligations for the climate section of the extra-financial report and which will come into force one year later, i.e. for application from the 2025 season.

Although Ethos had already introduced its expectations regarding the approval of sustainability and/or climate reports in its 2022 guidelines, this edition consolidates the expectations regarding its approval. This new edition of the guidelines also reinforces the criteria for the re-election of the Chair of the Board of Directors.

This edition of the Ethos Guidelines also takes into account:

- The latest version of the Swiss Code of Best Practice for Corporate Governance, the Swiss Stewardship Code and the Corporate Governance Directive of the SIX Swiss Exchange;
- The social evolution of language by adopting gender-neutral terms, simultaneously reflecting Ethos' principles concerning diversity.

1.1 CHAPTER 2: SPECIFYING THE REQUIREMENTS FOR APPROVING THE SUSTAINABILITY REPORT

Ethos considers that the legislation on sustainability reporting allows companies to operate with a great deal of manoeuvre, without defining either the quality or completeness of the data required, or the level of ambition of climate strategies. Ethos has therefore specified its minimum criteria for approving sustainability and/or climate reports:

- Established in accordance with a recognized standard (e.g. GRI);
- Verified by an independent third party (at least limited assurance);
- Recent assessment of material issues using quantitative KPIs;
- Setting ambitious and quantitative targets for material issues identified;
- Availability of the report sufficiently in advance of the general meeting.

[1] With more than 500 employees and sales of CHF 40m or balance-sheet total of CHF 20m

More specifically, with regards to climate data:

- The company must publish its CO2e emissions in accordance with the GHG (greenhouse gas) protocol and cover CO2 emissions in scopes 1 and 2, as well as emissions in scope 3, as comprehensively as possible, particularly in the supply chain (upstream) or in the use of products (downstream);
- The CO2e reduction targets must be compatible with a maximum 1.5°C warming limit and have been verified or are in the process of being validated by a recognized body (e.g. SBTi);
- The company must publish interim targets which are quantitative and cover at least 80% of its CO2 emissions;
- The company must explain in a transparent manner the measures taken to achieve its objectives, as well as the contribution of each measure to the achievement of the objective;
- The company must publish its progress in relation to its objectives;
- The climate strategy must have been updated within the last three years.

With the entry into force of article 964c of the Swiss Code of Obligations, which provides for the approval of the vote on the sustainability report by the general meeting, Ethos believes that it is appropriate to ask the largest GHG emitters to submit a specific vote on the climate report, in addition to the vote on the sustainability report. Similarly, these companies should regularly consult their shareholders on their climate strategy. This will notably be the case at the 2025 General Meetings, when companies will present their first climate report in accordance with the Ordinance on Climate Disclosures.

1.2 CHAPTER 3: STRENGTHENING THE ACCOUNTABILITY OF THE BOARD OF DIRECTORS

The main aim of the proposed changes is to strengthen the role of the Chair of the Board and the Chairs of the key committees.

- Ethos reserves the right to oppose the re-election of the Chair of the Board of Directors in the following cases:
  - The Board of Directors has not made sufficient improvements that are deemed satisfactory on a subject that was strongly contested[2] at a previous general meeting;
  - For companies with high CO2 emissions, the Board of Directors does not have a sustainability committee, does not vote on the climate report and has not put in place a convincing climate strategy.
- The new point 3.1.k and appendix 3 make it possible to refuse the re-election of a member of the Board of Directors who is also the Chair of a key committee (audit, risk, nomination) when the composition or functioning of the committee is deemed unsatisfactory;
- The rewording of point 3.4g reinforces the responsibilities incumbent on a member of the Remuneration Committee and will make it possible to reject the member proposed for re-election when the improvements made to the remuneration system remain unsatisfactory following a strongly contested vote.[2]

1.3 CHAPTER 6: INTRODUCTION OF A CEILING ON ALL CAPITAL INCREASES

The new point 6.3b introduces an overall 40% ceiling for all authorizations to increase capital without specific objectives and with preferential subscription rights. In some markets, companies often benefit from an accumulation of different authorizations. The guidelines now take into account the accumulation of all capital increases and allow to oppose votes on capital increases that are not compatible with shareholders' long-term interests, taking into account the size of the proposed capital increase and the company's financial situation.

[2] in principle, when the level of opposition exceeds 20%