

BACKGROUND

- Switzerland is a micro model of Europe, with 4 official languages: German, French, Italian and Romanch, in addition to local dialects and English. As you know, I speak half-a-dozen languages
- There is a political and cultural disparity between the various regions of Switzerland.
- However, there are strong links (even among the 10 million Swiss expatriates worldwide, who exceed the domestic Swiss population of 7 million), particularly regarding neutrality, bank secrecy and international developments. Geneva, for instance, hosts 30 major international governmental organizations (such as the International Labor Organization/ ILO, the International Telecommunication Union/ ITU, the Red Cross, the United Nations European Headquarters, the World Health Organization, the World Intellectual Property Organization/ WIPO, the World Trade Organization/ WTO), as well as some 300 non-governmental organizations, and the diplomatic representations of 160 countries. About 4'500 international conferences and 20'000 international meetings are held each year in Geneva.

QUESTIONS

1) Overall, how shareowner friendly is Switzerland ?

- Switzerland is often considered to be a corporocracy, dominated by corporate CEOs and bank CEOs. Just like in Japan, their entire career is spent within a single corporation. Many tend to think they are the legitimate representatives of investors.
- A major Swiss issue is its banking secrecy. This is why the identity of shareholders in Swiss corporations is generally not revealed, except in rare cases (e.g. the 3% stake in Nestlé of L'Oréal heiress Madame Liliane Bettencourt). The banking secrecy was recently weakened by UBS, when it agreed to divulge to the IRS the accounts of 4'450 American residents (after legal proof of their tax fraud) - this number could rise to 10'000 holders. The oldest Swiss private bank, Wegelin & Co founded in 1771, recently decided to discontinue investing its clients' funds in the U.S. Due to banking secrecy, securities class actions are difficult to organize in Switzerland.
- The first initiatives to enhance shareholder values were organized 20 years ago, when I assembled Geneva-based pension funds (e.g. Geneva's teachers' pension fund, the pension funds of the European corporate head offices of U.S. firms like Caterpillar, Dupont de Nemours, etc). However, the stiff resistance of the Swiss corporate establishment incited me to focus, as early as 1990, on the U.S.A., particularly at the CII, and with major U.S. governance leaders like Bob Monks. In the UK, my efforts were supported by Sir Adrian Cadbury, Hermes and other major pension funds. In France, Paris Bourse (now NYSE Euronext) contacted me 15 years ago to brief its International Advisory Board on international corporate governance developments.

2) What are some notable pro-investor aspects of the Swiss market, corporate governance or regulatory framework ?

The only serious effort to enhance adequate corporate governance practices was developed by the Ethos Foundation, founded in Geneva in 1997 by Dominique Biedermann, after he attended my corporate governance meetings throughout 1995-96. He intervenes on behalf of 82 Swiss institutional investors in favor of voting rights, executive remunerations, etc. I supported his nomination for the 2009 ICGN Award at the ICGN Annual Meeting in Sydney (Australia).

3) What are the biggest problems or deficiencies with Swiss corporate governance ?

- Swiss isolationism from the European Union mimicks its isolationism in global corporate governance affairs. Very few Swiss representatives participate to CII, ICGN, OECD or other major international conferences.
- The Swiss economy is dominated by major banks (e.g. the combined assets of Credit Suisse and UBS represent 6 times the Swiss GDP). It may be surmised that the Swiss banking secrecy may have hindered the participation of Switzerland in global corporate governance affairs.
- The 2002 Swiss Corporate Governance Code as well as its 2007 update were developed by representatives of the corporate and banking establishment. Shareholder representatives' comments were called upon but not really taken into account - for instance, their comments related to the "one share one vote" principle are not referred to in the Code, thus facilitating voting distortions (e.g. the 2 to 5% voting limitations at 24 Swiss companies, representing nearly 2/3rds of the Swiss market capitalization). The two major companies, Novartis and Nestlé, are affected by respectively 2% and 5% voting right limitations. This could be considered a paradox, in a country said to be the oldest Western democracy, established in 1291.
- Another major problem affecting Swiss corporate governance is the prevalence of corporate executives who also wear the Chairman hat. This was a major issue at the 2007 AGM of Nestlé, when Ethos in Geneva, Deminor in Brussels, and ISS in the U.S. (at the time of its acquisition by RiskMetrics) voiced their discontent, and nearly prevented the nomination of Peter Brabeck-Letmathe as Chair and CEO of Nestlé. Peter Brabeck promised to relinquish his CEO title as soon as a new CEO could be nominated, which occurred in 2009. However, at Novartis for instance, Daniel Vasella is still both Chairman and CEO.

4) How active are large institutional investors in Switzerland, and what role do activist investors play ?

Apart from the institutional group founded by the Ethos Foundation, there is still little activity or interest to enhance corporate governance and shareholder values in Switzerland.

This is why I decided two decades ago to focus on the Americas, Asia, Europe, and the Middle East - particularly as I had worked in all these areas.

5) What are some important recent developments that investors should be aware of, and what are some brief recommendations you have for reform or change ?

Major U.S. pension funds and other global institutional investors should strive (with the help of major governance rating agencies like The Corporate Library, the European Corporate Governance Services/ ECGS, Glass Lewis, GMI, and/or RiskMetrics) to align the Swiss corporate governance framework with that of other major countries.

A leading democratic country like Switzerland should, at the very least, uphold the “one vote one vote” principle.

CONCLUDING REMARKS

The CII played a most significant role between 1990 and 1995 in inciting me to develop adequate corporate governance practices, and to contribute to the foundation of the ICGN after the 1995 CII Spring Meeting in Washington.

The CII continues to inspire my worldwide corporate governance endeavors, which now focus more particularly on new corporate governance frontiers (e.g. in the Middle East), as well as at meetings of the United Nations in Geneva, of the International Advisory Board of the NYSE Euronext Stock Exchange, of the International Chamber of Commerce/ ICC, etc.

My international endeavors have allowed me to be the first Honorary International Participant of the CII, and to be awarded the 2001 ICGN Certificate of Appreciation for Outstanding Services to the ICGN, and the 2007 ICGN Award for Excellence in Corporate Governance. I recommended to bestow the 2009 ICGN Award to the Ethos Fund, for its pioneering endeavors in Switzerland.