

REGULATORY BOARD COMMUNIQUÉ NO. 6/2010 OF 24 NOVEMBER 2010

Explanations with regard to the presentation of compensation to the most senior members of management in the Corporate Governance Report (Point 5.1. of the Annex to the Directive Corporate Governance)

I. BACKGROUND

The Directive Corporate Governance of SIX Swiss Exchange (DCG) is intended to ensure the sufficient disclosure of certain facts in the issuer's annual report. It does not lay down any requirements with regard to the structure of corporate governance. This is also true of issuers' compensation models.

The methods and processes used to determine the compensation paid to members of the board of directors and executive committee must be comprehensible for investors. The disclosure of pay structures should, among other things, enable market participants to assess whether or not the chosen pay model is appropriate in the light of the performance incentives that are set. Where necessary, they must also know that the bodies responsible for determining compensation set remuneration levels wholly or partly at their own discretion. Furthermore, market participants must be able to evaluate the reasons for the trend in pay over the past business year.

The purpose of Directive Corporate Governance (DCG), Annex, Point 5.1 is to set out as clearly as possible the responsibilities, the procedure used to determine compensation and shareholding programmes for members of the board of directors and executive committee, as well as the basis and elements of such compensation and shareholding programmes. This involves disclosure after the fact. The Corporate Governance section of the annual report should provide a comprehensible account of the pay system in place during the financial year covered by the report. The reasons for a fall or rise in pay during the reporting year compared with the previous year should also be clear from this presentation.

The Sanction Commission recently published two decisions (in German) which in part address the issues described above (Decision of the Sanction Commission of 11 June 2010 [SaKo 2010-CG-I/10])

http://www.six-exchange-regulation.com/download/admission/being_public/sanctions/publication/decision_cg_110610_de.pdf

Decision of the Sanction Commission of 30 July 2010 [SaKo 2010-CG-II/10])

http://www.six-exchange-regulation.com/download/admission/being_public/sanctions/publication/decision_cg_300710_de.pdf

A number of questions have arisen since these decisions were published. In order to provide clarification, the Issuers Committee has decided to issue the following explanations on the transparency regulations laid down in the Directive Corporate Governance (DCG), Annex, Point 5.1.

II. EXPLANATIONS

Issuers' pay systems take widely differing forms. The examples shown here are not concrete proposals for how such systems should be structured. Rather, these explanations are intended to encourage the presentation of aspects of compensation models that are common among companies listed on SIX Swiss Exchange.

With a view to the proper presentation of the pay system, it is recommended that explanations relating to non-executive members of the board of directors, on the one hand, and executive members of the board of directors as well as members of the executive committee, on the other, are given separately.

A. *Explanations of fixed and variable pay components*

1. **Salary comparisons:** Further details on the companies whose pay systems or salary levels have been used for comparison purposes (e.g. information such as sector/business activities, size and operating territories of the companies concerned or specific firms).
2. **Reference markets:** If pay is based on standard market conditions, a description must be given of the market concerned and/or the main conditions that apply on that market.
3. The **relationship between the fixed and variable shares of compensation** must be given (e.g. "the variable component of pay to members of the executive committee amounted to between 50 and 150 percent of the fixed component").
4. **Severance packages:** The core elements of agreements concerning any severance packages must be disclosed in the annual report (e.g. "payment of a minimum of one and a maximum of three annual salaries").

B. *Explanations of variable pay components in particular*

1. **Key factors in the increase/decrease of the variable pay component:** The primary objectives that are important in determining the variable part of salary must be listed (e.g. share price, consolidated profit, profit maximisation, assets under management, etc., stating the date of measurement). Objectives do not need to be allocated to the individual members themselves.
The personal performance objectives of the various members of the board of directors and executive committee do not need to be disclosed. The approximate weightings of individual performance objectives and other elements in the variable pay component, such as divisional or corporate objectives must be shown, however.
2. **Use of benchmarks:** If benchmarks are used in determining variable pay, the report must give a brief explanation of the content or composition of such benchmarks (e.g. movements in the company's share price in relation to an index or in relation to competing companies, etc.).

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