

CLOSE-UP

Lessons from Say-on-Pay: 7 guiding principles for communicating compensation

01 Engage proactively with shareholders and proxy advisors

Engage early and regularly with key voting representatives at major shareholders or proxy advisors, as appropriate. Use these exchanges to discuss the considerations of the Board of Directors and its Compensation Committee and to understand investor perspectives on compensation matters.

02 Explain the rationale behind the compensation framework

Summarize the considerations of the Board of Directors regarding the compensation framework, including the background to any adjustments made. Describe how the structure supports the company's business strategy and values, as well as long-term value creation for shareholders.

03 Show how executive pay aligns with shareholder interests

Illustrate how the compensation framework aligns the interests of senior management with those of shareholders. Highlight the link between executive compensation, company performance and shareholder outcomes.

04 Clarify performance metrics and target disclosure

Explain any "non-IFRS" or "non-GAAP" metrics and the reasons for their use in compensation. Where performance targets are not disclosed, explain the rationale for this approach.

Note that the retrospective disclosure of performance targets and achievement for variable compensation has become a common practice in Switzerland and is generally expected by investors.

05 Define and explain the use of discretion in pay decisions

Specify any discretion available to the Board of Directors or its Compensation Committee when determining compensation, consistent with the "comply or explain" principle. Where discretion may be exercised, provide examples and transparency to mitigate any perception of arbitrariness.

06 Anticipate and address investor scepticism

Unusual or non-market compensation approaches often trigger scepticism among investors. Where such approaches are adopted, explain how they relate to the company's specific business model and corporate strategy and how they support shareholder interests.

07 Enhance the clarity and accessibility of compensation reporting

Present the compensation report in a clear and structured way. Where helpful, use graphics or visual elements to improve readability and guide the narrative. Language and structure should support transparency and overall understanding.