

The new Swiss Code: Sustainability as guiding principle

The Swiss Code of Best Practice for Corporate Governance has been providing companies in Switzerland with recommendations on their corporate governance for twenty years. It is widely accepted in practice and a prime example of successful self-regulation in Switzerland.

The [Swiss Code](#)¹ enjoys wide acceptance in the business world because it is a collection of established best practices. In individual areas, however, it also applies appropriate “nudging”. From a technical point of view, the Swiss Code refrains from repeating legal regulations. It phrases its principle-based rules with the ambition of being easy to understand. Ultimately, each company should also retain freedom in its structuring decisions as long as it explains these appropriately (“comply or explain” principle).

These core principles, which make up the Swiss Code, have also been at the heart of its most recent revision. Adjustments were made against the background of long-term consideration rather than the latest trends. It means the new version of the Swiss Code is an instrument that refrains from revolutionary changes, but instead aims to provide the companies it addresses with guiding principles on what constitutes good governance and corporate sustainability for value creation.

The last revision had taken place in 2014. Back then, efforts were influenced by the consequences of the Minder initiative on executive pay. Even then, focus was placed heavily on the sustainability of corporate governance: the sustainable interests of the company were put at the center and there was a departure from focusing purely on shareholders.

¹<https://www.economiesuisse.ch/en/publications/swiss-code-best-practice-corporate-governance>





“Sustainability must also be understood in economic terms.”

The 2023 revision now comes against the backdrop of very different drivers. First of all, there was the new company law, which Parliament was finally able to adopt in 2020. This law is the result of many years of preparation and consultation and introduces new rules in key areas as well as opening up new possibilities. The Swiss Code needed to be aligned with these. In addition, the new requirements for non-financial reporting and experience gained in recent years, especially regarding the importance of compliance, had to be taken into account. The 2023 revision was also a chance to incorporate internationally significant developments, to harmonize these with the specific characteristics of Switzerland as a business location and of local companies, and to comprehensively update the Swiss Code to the current situation.

Work on the revision was also shaped by the core ambition to support confidence in business. The new Swiss Code consistently responds to developments that have taken place in the area of sustainability in recent years. Sustainability has become a transversal issue and truly permeates the entire Code. Crucial here is the emphasis that sustainability must be understood holistically and in all its dimensions, i.e. not only from an environmental and social perspective, but also in economic terms.

In a liberal and sustainable market economy, we must always consider economic, social and environmental goals holistically. Focusing on only one aspect will not deliver the intended sustainable progress. Statements of this clarity were not included in the previous code.

In the new Swiss Code, this emphasis on sustainability is expressed, for example, by stipulating that it is the entire board of directors that should regularly give account of the sustainability of its own company. The board should not be able to delegate this responsibility, not even to one of its committees. In particular, the board must also give account of particularly relevant topics such as the environment and climate, human rights, diversity or, if necessary, taxes. As a result, the issue of sustainability has become more important from a corporate governance perspective and has now reached the board of directors as a central management task beyond mere reporting. These amendments are designed to ensure that top management consistently considers sustainability in all its key dimensions, i.e. environmental, social and economic. After all, it is these elements that have a significant influence when it comes to balancing interests within the scope of corporate governance.





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The importance of sustainability in the ESG sense is also emphasized by the fact that it should be embedded in the remuneration systems through clear targets. Incentives and remuneration should be appropriately linked to long-term sustainability targets. This should create the ideal conditions for the company to consistently enforce its sustainability strategy.

A direct consequence of this is that non-financial information will have a greater impact on the overall management and supervision of the company, especially with a view to sustainable corporate governance. The importance of independent audits will increase in making this information objective. This will also raise the

requirements with regard to ensuring a qualified composition of the board of directors in general and of the audit committee in particular. The interaction of the board of directors/audit committee with internal and external assurance functions is key for effective corporate governance.

In terms of dealing with risks and emphasizing the role of compliance, the new Swiss Code goes further than its predecessor. Financial monitoring now appears as a separate subject of a main recommendation. The recommendations on dealing with conflicts of interest have also been greatly expanded and refined. Companies now have more options for finding appropriate solutions in a complex environment.

Summary

The new [Swiss Code](#)¹ is an important update, providing a refresh of the corporate governance rules as well as clear enhancement of the previous codes. If the Swiss Code succeeds in remaining the reference work of choice for good corporate governance in Switzerland and in offering companies reliable guidance for sustainable governance, the goal of the revision efforts will have been achieved.



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