

# Nomination committees must communicate better

Given its role, status and nomination committees, the Swedish model is in many ways unique. Merely the fact that it involves a group of shareholders, appointed according to a decision reached at an AGM, which among other responsibilities proposes who are to be elected to serve on the board is, from an international perspective, unusual, giving shareholders considerable power. However, communication between the nomination committee and other shareholders needs to be improved. For one thing, proposals should be presented in greater detail.

From a corporate governance perspective, the fact that nomination committee members are given access to assessments of a board's performance and are often given the opportunity to discuss it with board members is of unique benefit and should be preserved. Naturally, this also improves the likelihood that the composition of the board will be a success. The nomination committee's responsibility is considerable, placing it under a solemn obligation.

A nomination committee's proposals for appointments to the board shall be supported in a written statement. Furthermore, at the AGM, at which auditors and board members are elected, to comply with the Swedish Code for Corporate Governance, the nomination committee shall report on its performance, pre-senting and justifying its proposals.

## **Better communication**

In the Second AP Fund's experience, communication between nomination committees and other shareholders has not always been the best. The potential for shareholders to submit suggestions or table questions to the committee before it finalizes its proposals is seldom utilized.

The shareholders who often participate in the work of the nomination committee gain a thorough understanding of the issues to be addressed at the AGM. This is naturally not the case for the great majority of shareholders. Nevertheless, many of these shareholders are committed, responsible and determined to draw their own conclusions about agenda items at the AGM.

Thanks to the Swedish nomination committee model, there has been a significant increase in opportunities for shareholders to act responsibly. However, this assumes that communication from and to the committee functions effectively. The responsibility for ensuring this lies mainly with the committee, which is required to communicate with other shareholders – at least in the form of the statutory clarification of its planned proposals.

## **The nomination committee statement**

The statement the committee is required to submit to clarify its proposals is a central element in the communication process between committee and shareholders. Not uncommonly, however, these statements can be standard in form and thin on content.

The nomination committee statement should be detailed and company specific. Based on the statement, shareholders should be able to make up their own minds before the AGM. It is very far from the norm that these statements look like this. In many instances, the Fund has noted that the written statement is significantly thinner than the information subsequently presented by the committee at the AGM. Here is a clear need for improvement. The Fund therefore urge all nomination committees to invest a bit more effort in clarifying the motivation for the proposals to be presented at forthcoming AGMs. This would enable more shareholders at AGMs to make decisions based on hard data. It would also further strengthen the status of the nomination committee in Swedish corporate governance.