



## **Rules on Remuneration of the Board and Executive Management and on Incentive Programmes**

Applicable from 1 January 2021

### **Introduction**

The Swedish Corporate Governance Board, which is to promote good practice in the Swedish securities market, describes in these *Rules on Remuneration of the Board and Executive Management and on Incentive Programmes*, (remuneration rules), what is good practice in the Swedish securities market regarding remuneration to a company's board and executive management and regarding shares and share price related incentive programmes.

The remuneration rules replace the previous self-regulation on remuneration to board members and executive management and on share and share price-related incentive programmes. The rules also contain certain provisions that supplement the rules in the Swedish Companies Act on remuneration guidelines and remuneration reports.

### **I. General provisions**

#### *1.1 The scope of the remuneration rules*

**These remuneration rules are to be applied by Swedish companies whose shares are admitted to trading on a Swedish regulated market. With the exception of Section IV, they are also to be applied by Swedish companies whose shares, following application by the company, are traded on the Nasdaq First North Growth Market, Nordic SME or Spotlight Stock Market trading platforms.**

#### *Commentary*

This rule states that Swedish companies whose shares are admitted to trading on Swedish regulated markets are to follow the rules in their entirety, and that companies whose shares are traded on other stipulated trading platforms are to follow the rules with the exception of those contained in section IV. The rule means that Swedish companies whose shares are admitted to trading or listed in other countries but not on a Swedish regulated market or any of the named trading platforms are not bound by the rules.

#### *1.2 Interpretation and sanctions*

**The remuneration rules describe what is good practice in the Swedish securities market regarding remuneration and incentive programmes. The rules are to be interpreted in the light of their purpose. This means that not only the wording of the provisions but also their objectives are to be respected.**

**It is for the Swedish Securities Council, whose task is to promote good practice in the Swedish securities market, to comment on how the rules are to be interpreted and applied and how parties should proceed in specific situations, as well as to grant any exemptions from the remuneration rules. It is the responsibility of parties who are in contact with the Council to submit full, correct and clear information relevant to the particular matter in order to provide a basis for the Council's assessment.**

### *Commentary*

The rules do not address all eventualities connected to the structure, decision making and implementation with regard to incentive programmes and other remuneration arrangements that occur in the Swedish stock market. It is therefore of great importance that there is a body that can provide authoritative information on how the rules are to be interpreted and applied. That role belongs to the Swedish Securities Council.

The rules are to be interpreted and applied in a manner consistent with their purpose. Any uncertainty about the meaning of a provision in an individual case should be removed by submitting an inquiry to the Swedish Securities Council.

Incentive programmes and other remuneration arrangements often differ between companies. It is not possible to take such differences into account in a general regulatory framework, and it is therefore necessary to combine the rules with a dispensation body which can grant exemptions from all or individual rules. The Swedish Securities Council also has that task.

As the remuneration rules describe good practice, the disciplinary body of the marketplace where an issuer's shares are admitted to trading may decide on sanctions in accordance with the marketplace regulations if any breach of the remuneration rules is deemed to have been committed following the Swedish Securities Council's examination of which procedures are compatible and not compatible with the remuneration rules.

### **I.3 Definitions**

**In these rules, the concepts listed below are defined as follows.**

- a. **Executive management** – the chief executive officer, deputy chief executive officer and other employees that the company regards as executives.
- b. **Remuneration report** – the report that the general meeting is required to approve in accordance with Chapter 7, Section 62 of the Swedish Companies Act. The content of the report is stipulated in Chapter 8, Sections 53a and 53b of the Act.
- c. **Remuneration guidelines** – the guidelines that are to be approved by the general meeting in accordance with Chapter 7, Section 61 of the Swedish Companies Act. The content of the guidelines is stipulated in Chapter 8, Sections 51-53 of the Act.
- d. **Incentive programme** – remuneration that is based on shares, convertibles or warrants issued by a listed company or other instruments related to the price development of the listed company's shares.
- e. **Listed company** – a company that is to apply the remuneration rules in accordance with Rule I.1

### *Commentary*

This provision defines certain terms used in the remuneration rules. Point a) defines the term “executive management” as the chief executive officer (CEO), deputy CEO and other executives whom the company considers to be members of the executive management. Examples of positions that should normally be considered part of the executive management include the chief finance officer (CFO), finance director and HR director. Other executives who report directly to the CEO are also normally included in the executive management. In companies where the group of managers who report directly to the CEO is larger, it is the company's responsibility to define suitable criteria for those who are to be considered part of the executive management.

Points b) and c) define the terms “remuneration report” and “remuneration guidelines” with reference to the rules on remuneration reports and remuneration guidelines contained in the Swedish Companies Act. See also section IV.

Incentive programmes and other remuneration arrangements can be designed in different ways and not all such arrangements can be said to be linked to good practice in the stock market. However, when the arrangement is based on shares, convertibles or warrants or call options issued by a listed company, there is a clear link to good practice in the stock market. The same applies to arrangements that are so similar in their practical effects that matters relating to them are generally regarded as stock market issues. One example is synthetic options, which do not entitle the holder to the receipt of shares but to a cash amount related to the development of the share price but whose payment is usually secured

through some form of share-related arrangement. Point d) therefore defines the term “incentive programme” as remuneration based on shares, convertibles or warrants issued by a listed company, regardless of whether these are issued or transferred, or other instruments related to the price development of the listed company's shares. However, cash compensation that is conditional on all or part of the cash compensation being used to acquire shares in the listed company on market terms is not covered, as the size of the cash compensation does not depend on the share price development, regardless of whether the cash compensation can be returned if the employee does not retain the shares for a pre-determined period.

In point e), the term listed companies is defined as companies that are to apply the remuneration rules. See also Rule I.1.

## **II. Incentive programmes**

### *II.1 Scope of the rules*

**The provisions in this section shall be applied when a listed company prepares, decides on or implements an incentive programme aimed at board members, members of the executive management or other employees of the listed company or companies in the same group of companies as the listed company.**

#### *Commentary*

When an incentive programme means that shares, warrants or convertibles are issued or transferred to board members, company executives or other employees of the listed company or companies in the same group as the listed company, the listed company must in parallel with these remuneration rules comply with the provisions of the Swedish Companies Act and any rulings by the Swedish Securities Council.

### *II.2 Decisions on incentive programmes*

**The general meeting is to approve all incentive programmes directly or indirectly aimed at the company's board members, members of the company's executive management or other employees, or to any individual who is about to take up a position as a board member or company executive, or who have left such a position but previously influenced the design of the incentive programme.**

**Notwithstanding the content of the first paragraph of this Rule, incentive programmes aimed at employees who are not members of the company board or executive management, which do not involve any dilution of existing shareholders' shares in the company and which are not otherwise of significant importance to the company do not need to be approved by the general meeting.**

**The general meeting's decisions on incentive programmes are to include all significant terms and conditions for the programme.**

#### *Commentary*

The first paragraph stipulates that the general meeting is to approve all incentive programmes directly or indirectly aimed at board members, members of the executive management or other employees, as well as individuals who are about to take up a position as a board member or company executive or who have previously held such a position and exercised influence on the design of the incentive programme. Examples of indirect incentive programmes are when a company issues or transfers shares, convertibles or warrants to a third party who then transfers the instruments to an employee or to a specially created company in which employees are invited to become shareholders. The majority requirement that applies to the general meeting's decisions on incentive programmes is determined by the provisions of the Swedish Companies Act and any related rulings by the Swedish Securities Council. It should also be noted here that even if it is the general meeting that makes the final decision regarding the incentive programme in accordance with the first paragraph of this Rule, it is the board of the company that is responsible for the preparation of the incentive programme as well as the documentation that provides the basis for the decision by the general meeting. See also Rule II.4.

Even if a listed company has included provisions on incentive programmes in its remuneration guidelines, e.g. programmes that are based on synthetic options or other share price related cash-settled programmes, and the remuneration guidelines have been approved by the general meeting, a separate

decision on the incentive programme is to be made in accordance with this rule, unless the guidelines include all significant conditions for the incentive programme in accordance with the third paragraph of the rule.

The second paragraph of the provision refers to incentive programmes that do not lead to any dilution of existing shareholders' shares in the company and only entail a cost for the company. (Another matter is that hedging measures for such incentive programmes may require general meeting decisions in accordance with, for example, Chapter 16 of the Companies Act). Examples of such incentive programmes are programmes that are based on synthetic options, employee stock options and similar, as well as arrangements based on the company making an equity swap with a bank to ensure share delivery. Incentive programmes aimed at employees who are not board members or members of the company's executive management do not need to be approved by the general meeting unless they are of significant importance to the company. An example of an incentive programme of significant importance to the company is where the costs of the programme may significantly impact the company's results. It is for to the company board, within the framework of its stewardship of the company's affairs, to assess whether the circumstances call for the programme to be approved by the general meeting. It is also up to the Board, in the light of the Swedish Companies Act's provisions on decision making, to decide whether a decision on an incentive programme which, taking into account the exception in this paragraph, is not to be made by the general meeting is to be made by the board or whether it can be made by the CEO or the executive management.

The final paragraph of this rule states that the general meeting's decision on an incentive programme is to cover all significant terms and conditions of the programme. This requirement should normally be met if the general meeting's decision is made on the basis of the documentation to be provided to the shareholders in accordance with Rule III.1. The rule also means that the board of the company may be instructed to implement the general meeting's decision, for example by the meeting stipulating in its decision that transfers within an incentive programme, for one or more years, are to occur on market terms or on the basis of one or more performance criteria whose degree of fulfilment is to determine allocation to those covered by the programme, and otherwise in accordance with the guidelines that apply to the entire incentive programme. The rule also does not prevent the general meeting from giving the Board the right, if there are significant changes in the company or in the market, to decide that the allocation is to be reduced in a certain year or that no allocation is to be made to all or certain categories of employee included in the incentive programme. However, the board may not be given the right to decide in practice the key conditions in the programme or to make decisions on incentive programmes based on authorisation by a general meeting.

Prior to a decision on an incentive programme, in accordance with both the Swedish Companies Act and what is prescribed in section III, the shareholders must have received sufficiently detailed background information on which to be able to base their decision.

### ***II.3 Conflicts of interest***

**No person who has exercised significant influence on the final design of an incentive programme may participate in the incentive programme.**

**Board members who are also shareholders in the listed company may not vote on shareholder resolutions on incentive programmes that include themselves.**

#### *Commentary*

This rule expresses the central principle in the remuneration rules that any person included in an incentive programme is not to have any significant influence over the final design of the programme. The reason for this rule is that decisions on an incentive programme are to be made independently in relation to those included in the programme. However, taking this objective into account and in order not to make it impossible in practice for boards and remuneration committees to create incentive programmes that are suitable for the individual company, it cannot be required on the basis of good practice that any form of participation in the design of an incentive programme excludes a member of executive management or any other employee from participating in the incentive programme. The purpose of the rule is that the board, or where applicable the remuneration committee, is to have the decisive influence on and responsibility for the design of an incentive programme.

Incentive programmes that are exclusively intended for board members or someone who does not belong to the board but is intended to be elected to the board are a matter for the company's owners.

When preparing such programmes, therefore, particular care is required to ensure that the board members do not themselves determine the final design of the incentive programme.

The *second paragraph* stipulates that a board member who is included in an incentive programme and who also owns shares in the listed company may not vote on issues concerning the incentive programme at the general meeting.

#### ***II.4 The participation of members of the board in incentive programmes for the executive management or other employees***

**A board member who is not simultaneously employed by the listed company is not to participate in incentive programmes for the company's executive management or other employees unless there are particular reasons for the participation. This also applies to any person who is not a member of the board but who is intended to be elected to the board.**

**If a listed company intends to allow those referred to in the first paragraph to participate in the same incentive programme as the executive management or other employees for particular stated reasons, the matter is to be submitted to the general meeting as a specific item for decision.**

#### *Commentary*

Incentive programmes intended for the company's executive management or other employees of the company or group of companies are such important issues for the company that the board must in practice participate in the preparation of the incentive programme and be accountable for it. When a proposed incentive programme is to be examined by the general meeting, the board is the guarantor that the information that provides the basis for the general meeting to make its decision is correct and has been produced in an acceptable manner, that valuations and subsidies are reported in a transparently and that the expected positive effects of the programme justify the costs associated with it. Therefore, the rule prescribes that members of the board are not to participate in incentive programmes aimed at the company's executive management. If the owners of a listed company believe that there is reason to introduce an incentive programme for board members, the company is to have a separate programme for the board which is to be designed with special care and in compliance with the preparation requirements set out in the commentary to Rule II.3. The purpose of the programme is to be to contribute to long-term value creation in the company and to create a shared interest between the company's board members and its shareholders.

However, if there are particular reasons to do so, board members may be allowed to participate in incentive programmes for the executive management or other employees. One such reason, for example, is if the board member is active in the company in the same way as an employee would be. The exception also presupposes that the conflict of interest provision in Rule II.3 has been taken into account.

#### ***II.5 Incentive programmes for the executive management based on non-standard call options issued by third parties***

**If a member of the executive management of a listed company acquires non-standard call options in the listed company from an outside party, the board is to be informed of the acquisition.**

**If the listed company is party to a member of its executive management acquiring non-standard call options from outside parties, the decision on participation is to be made by the listed company's board. If an acquisition of non-standard call options is made other than on market terms, it is to be approved by the board.**

#### *Commentary*

This rule regulates a situation where a member of the company's executive management acquires options from a party outside the listed company, for example a securities institution or a major shareholder in the listed company. The acquisition of non-standard call options for shares in a listed company on their own initiative and on market terms by the CEO or other executives of the company does not in itself raise questions of good practice in the stock market other than those relating to disclosure. If the options are acquired from an outside party and the acquisition takes place without the listed company participating in the acquisition, the first paragraph only requires that the board be informed of the matter.

If the listed company contributes to the acquisition of the option, for example by taking the initiative, participating in the financing or administering the arrangement, the second paragraph stipulates that a decision on this participation is to be made by the board of the listed company. If the listed company

does not participate in the acquisition but the options are instead subsidised by another party, conflicts of interest may arise. Correspondingly, therefore, an acquisition of options from outside parties conducted other than on market terms must also be submitted to the company's board for approval.

#### ***II.6 Incentive programmes for the board based on non-standard call options issued by third parties***

**If a member of the board of a listed company acquires non-standard call options in the listed company from an outside party, the board is to be informed of the acquisition.**

**If the listed company assists in a member of its board acquiring non-standard call options from outside parties, the decision on participation is to be made by the general meeting. If an acquisition of non-standard call options is made other than on market terms, it is to be approved by the general meeting.**

**In the event that a decision is to be made by the general meeting in accordance with this rule, the owner who issued the call options may not participate in the general meeting's decision regarding the incentive programme.**

### **III. Information in connection with incentive programmes**

#### ***III.1 General provisions on information to general meetings prior to decisions on incentive programmes***

**Prior to a general meeting decision on an incentive programme, the shareholders are to be provided with correct, relevant and clear information on which to base their decision. The information is to enable shareholders to make a complete and correct assessment of the significance of the incentive programme for the company and of whether the incentive programme has been prepared and designed in accordance with the remuneration rules.**

**To the extent that it is relevant, the information to the general meeting is to include:**

- 1. the reasons for the proposal and how the proposal has been prepared;**
- 2. the number of instruments, the size of the allocation, including the procedure to be followed in the case of over- or undersubscription and how and to which categories of employees the allocation is to be made;**
- 3. any predetermined and measurable performance criteria aimed at promoting the company's long-term value creation that apply to allocation in the programme and, if such criteria are not specified, a reason why such criteria have not been set;**
- 4. the market value of the instruments, the price at which the instruments can be acquired and, where applicable, how the market value was calculated and who performed the valuation;**
- 5. interest and maturity for convertible debentures and whether or not the loan is subordinated;**
- 6. the conversion rate and redemption amount;**
- 7. the possible extent of any dilution;**
- 8. the majority requirement to be applied when the decision is made at the general meeting;**
- 9. the vesting period, specifying in particular and justifying why a vesting period or period from the commencement of the agreement until a share may be acquired is less than three years;**
- 10. the cost of the programme for the company based on different assumptions about the share's future price development, including any social security contributions, where it is to be stated and explained in particular if and why the maximum possible outcome for cash compensation to the executive management has not been determined;**
- 11. any measures have been taken to limit the company's risk and how large the expected costs for such measures.**

**The proposal is to state the assumptions on which different calculations have been based.**

**In order for the shareholders to be able to place the proposed incentive programme in a larger context, a general description of the company's other incentive programmes is also to be provided.**

### *Commentary*

This rule regulates what information must be provided to the shareholders before a general meeting decision on an incentive programme. The rule also has bearing on the design of the remuneration report. See also the commentary on Rule IV.2.

The second paragraph lists a number of information points which, as a general rule, are to be included in the information on which the shareholders are to base their decision.

The provision in item 3 of the second paragraph means that the proposal to the general meeting is to state what criteria are to be used to measure the extent to which performance conditions in the programme have been met. However, for stock market or competition reasons, it may be considered acceptable to refrain from disclosing the detailed underlying criteria if a more general description of the criteria is provided instead. Similarly, it may be considered acceptable to refrain from disclosing the degree of goal fulfilment required in order to receive a certain allocation. However, in the case of company executives, and to a reasonable extent also for other categories of employee entitled to allocation, shareholders are to be informed about the criteria that have been used and what degree of goal fulfilment was required for a certain allocation no later than on the expiry date of the programme. See also the commentary on Rule IV.2.

Item 4 in the second paragraph stipulates that, prior to a general meeting decision on an incentive programme, the shareholders are to be provided with information to guide their assessment of the market value of the instruments and be informed of the price at which the instruments may be acquired. If there is no established market value for the instruments in question, a theoretical market value is to be calculated according to a generally accepted valuation model, e.g. Black & Scholes. Since calculations of market values are always highly dependent on the assumptions made, shareholders are to be informed of all the variables included in the model.

The implication of item 9 in the second paragraph is that, as a general rule, the vesting period for an incentive programme or, where applicable, the period from the conclusion of the agreement until a share may be acquired, is not to be less than three years. In the event that such a period is less than three years, this is to be stated explicitly in the information for the general meeting. In such cases, the information is also to contain an explanation of why the listed company has decided to propose a shorter period than three years.

Point 10 in the second paragraph stipulates that, if possible, the maximum possible outcome for cash remuneration to the executive management is to be determined. Limits for the maximum possible outcome do not need to be set for a cash amount and can be defined in other ways. In the event that the maximum possible outcome in accordance with this provision has not been determined, this is to be stated explicitly in the information to the general meeting and the information is also to contain an explanation of why the listed company has decided not to determine such a maximum outcome.

In the case of incentive programmes that do not involve any dilution of existing shareholders' shares in the company, several of the points in the second paragraph of this rule are not applicable. With regard to such programmes, however, the information to the general meeting is always to fulfil the requirements set out in items 10 and 11 in the second paragraph of this rule.

Depending on the design of the proposed programme, information other than that specified in this rule may also need to be provided prior to the decision at the general meeting. The list provided in this rule is thus not exhaustive.

### ***III.2 Incentive programmes decided on by the board of the company***

**In cases where the board of a listed company decides on or approves the introduction of an incentive programme in accordance with the second paragraph of Rule II.5, the listed company is to disclose its decision as soon as possible after the board's after it has been made.**

### ***III.3 Incentive programmes aimed exclusively at the board of the company***

**In the case of incentive programmes that are exclusively intended for members of the board of the company, the information to the general meeting is to include, as well as the information required by Rule III.1, a statement describing how the programme was prepared in accordance with Rule II.3. This also applies to incentive programmes for individuals who are not currently members of the board but who are intended to be elected to the board.**

## **IV. Remuneration guidelines and remuneration report**

### *IV.1 Remuneration guidelines*

**The remuneration guidelines that certain limited companies are obliged to have in accordance with the Swedish Companies Act are also, for the companies specified in Rule I.1, to include salaries and other remuneration to other members of the company's executive management.**

#### *Commentary*

The Swedish Companies Act stipulates that the remuneration guidelines are to include remuneration to board members, any deputy board members, the chief executive officer and any deputy chief executive officer. This rule expands this group to also include other members of the company's executive management. The corresponding extension does not apply to the remuneration report.

### *IV.2 The remuneration report*

**The remuneration report is to contain a reference to where in the annual report the information required according to Chapter 5. Sections 40–44 of the Annual Accounts Act is to be found.**

**In the remuneration report, a general overview of all outstanding incentive programmes and any incentive programmes completed during the year is to be provided.**

#### *Commentary*

The second paragraph of this rule states that an account must be provided in the remuneration report for all outstanding incentive programmes. Additionally, shareholders are to receive information on incentive programmes completed during the year. See the commentary on Rule III.1, second paragraph, item 3. It is for the board of the company to decide how the information is to be presented in more detail, for example by means of references to other documents, but the overview in the remuneration report is to be presented in a concise and pedagogical manner.