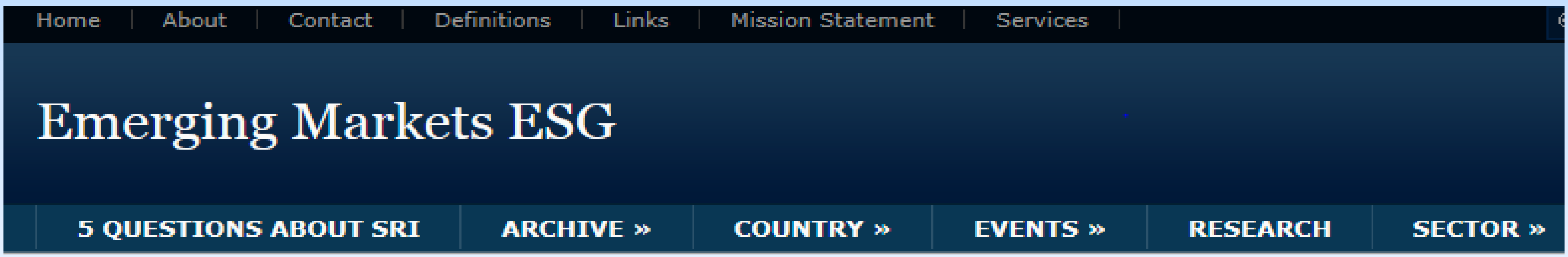
SAL Wroclaw
Lectures on Corporate Governance

Session 1 - Case in Point

Friday, October 28, 2011



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Case Study

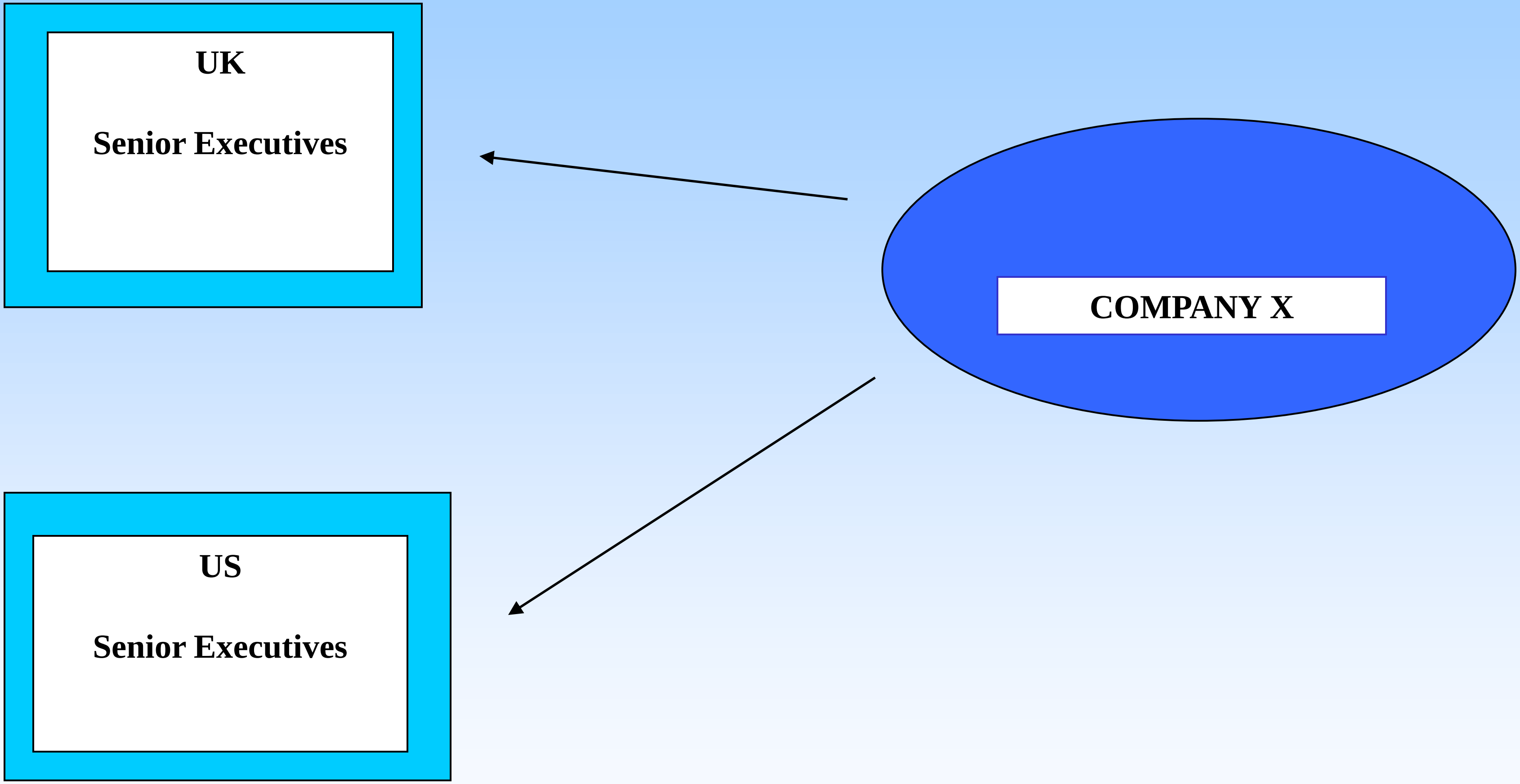
1990s – During a period of globalization, C*ompany X* expanded internationally. Like many companies, it sought to grow amidst a period of increasing information technology advances, interest in new technologies and diversification of financial products.

***Company X* began activities in the United Kingdom (UK) and in the United States (US).**

Senior executives in the home office of *Company X* as well as branches in the UK and the US were paid a base salary and bonuses based on incentive schemes.

The incentives were based on sales (revenue) and net profits made during each quarter as well as the share price of *Company X's* shares.

Case Study



Incentives based on: sales (revenue)
net profit earned each quarter
share price of Company X

Case Study

1990s – Senior executives and members of their families of *Company X* received luxury rental apartments in an expensive apartment building in the capital. The apartments belonged to *Company X's* insurance subsidiary. The CEO, the CFO and the CEO of the *Company X's* insurance subsidiary ordered luxury renovations of their apartments. These senior executives received interest-free loans to undertake these renovations.

2000 – 2002 – As prices on stock markets around the world fell, C*ompany X* reported heavy losses.

C*ompany X* was forced to sell its US subsidiaries at a loss of $578m.

The share price of *Company X* fell by 90 percent.

Case Study

February 2003 – The chairman of the board of directors of *Company X* resigned, one year before the end of his term. A new chairman of the board of directors was appointed; the new chairman was a current member of the board of directors.

April 2003 – The board of directors of *Company X* fired the CEO.

September 2003 – *Company X's* deputy CEO and the head of *Company X's* insurance subsidiary resigned.

Case Study

October 2003 – *Company X* announced that was considering legal action against (unnamed) former senior executives. The issue to be decided was: Who paid for the renovations of the apartments?

Question: Was the cost of the renovation of the apartments "material" or significant in relation to the company's financial position?

Case Study

October 2003 – *Company X* announced that was considering legal action against (unnamed) former senior executives. The issue to be decided was: Who paid for the renovations of the apartments?

Question: Was the cost of the renovation of the apartments "material" or signifcant in relation to the company's financial position?

<u>**Answer: No. The cost of the renovation of the apartments was most likely not "material." However, the payment for the renovation of the apartments is an issue of corporate governance, namely the relationship(s) among the company, the insurance subsidiary and executives of both the company and the insurance subsidiary.**</u>

Case Study

October 2003 – The press reported that an independent investigation would be conducted of:

the relationship between *Company X* and its insurance subsidiary; and

the manner in which *Company X* did business during the above-mentioned boom years.

Case Study

December 1, 2003 - *Company X's* insurance subsidiary announced that it would reduce pension payouts to policyholders.

The chairman of the board of directors of *Company X*, in office only since April 2003, resigned. As noted above, he was a member of the board of directors during the time the incentive programs were established.

***Company X* announced that it would claim damages for mismanagement from the former senior executives.**

Case Study

December 2, 2003 – Details of the internal investigative report were published in the press.

According to an article in the *Financial Times*, changes were made to the size and scope of the incentive schemes without the approval of the board of directors.

1. **The Chief Executive Officer (CEO) removed the limit on one incentive program so that it paid out more than 100% above its initial limit; whereas the initial limit was approximately EURO 39 million, incentives totaling approximately EURO 100 million were paid.**

2. **In another case, the CEO and Chief Financial Officer (CFO) received incentives of approximately EURO 5 million above the authorized limit.**

The report especially criticized the former CEO and former CFO. It also criticized the former chairman of the board of directors and the former CEO of *Company X's* insurance subsidiary.

Case Study

December 2, 2003 – The internal investigative report explained that full details of the bonus payments were not found in *Company X's* annual financial statements.

Total payments of EURO 154 million were found in the annual financial statements, whereas the internal investigative report found payments totaling EURO 220 million.

The report concluded: "a small number of individuals … behaved extremely unethically and possibly even criminally."

The public prosecutor announced the launch of a criminal investigation.

Case Study

EURO 220 million – found in internal investigative report -

EURO 154 million – found in annual reports =

difference / discrepancy of EURO 66 million

Case Study

EURO 220 million – found in internal investigative report -

<u>EURO 154 million – found in annual reports =</u>

difference / discrepancy of EURO 66 million

Questions

Case Study

December 3, 2003 – *Company X's* insurance subsidiary announced it would discontinue incentive schemes.

December 2003 – A group of pension funds in *Company X's* home country sent letters to 50 listed companies in the same country, asking that each company report its executive compensation policies to shareholders at its 2004 annual general meeting of shareholders.

Institutional investors and the country's leading shareholder association called for the drafting of a corporate governance code to be implemented by the country's stock exchange. The code should become part of the listing requirements.

An extraordinary session of Parliament was convened to discuss this and other scandals in the country. Parliament established a commission to research the situation in the country.

Case Study

QUESTIONS

Identify the company.

Identify the country.

Case Study

Companies & Mark

ED 2003

Tuesday December 2 2003

Scandal at Skandia laid bare

Chairman resigns as report into bonus abuses results in criminal proceedings against former leaders at insurer

By Christopher Brown-Humes and Nicholas George in Stockholm

The scale of the culture of greed and deception at Skandia, the Swedish insurer, was laid bare yesterday, prompting the immediate resignation of its chairman and criminal proceedings against former company leaders.

A damning independent investigation into Sweden's biggest corporate scandal in 70 years concluded that "a small number of individuals ... behaved extremely unethically and possibly even criminally".

Skandia's reputation has been shattered by details of the huge bonuses and company perks received by members of senior management since the late 1990s, when the company rode the stock market boom and became Sweden's second most valuable company. Since markets began to fall in 2000, it has racked up heavy losses and its share price has plunged by 90 per cent.

The report singled out Lars-Eric Petersson, who was removed as chief executive in April, and Ulf Spang, former finance director, for particular criticism. It also criticised Lars Ramqvist, former chairman; Jan Carendi, former chairman of Skandia Liv; Ola Ramstedt, former chief executive of Skandia Liv; and Jan Birgersson, an Ernst & Young auditor.

It said changes were made to the size and scope of incentive programmes without board approval. Mr Petersson removed the ceiling on one incentive programme so that it paid out

Bengt Braun (right), Skandia's chairman since April, quit yesterday and Björn Björnsson (also pictured) was appointed interim chairman AP

authorised SKr356m. In another agreement, Mr Petersson and Mr Spang received SKr70m more than authorised.

Christer van der Kvast, public prosecutor, said he was launching a criminal investigation into both of these payments. Skandia said it was sacking Mr Petersson and Mr Spang and would seek damages from them...

former senior management have broken rules, ignored board decisions and deceived their principals. They have acted in violation of the morals and propriety that form the foundation of acceptable company management," Skandia said.

Bengt Braun, chairman since April, resigned, saying he was "...

cheated, and so have the staff and customers," he said. Mr Braun was a board member when the controversial incentive programmes were established. Björn Björnsson was appointed as interim chairman.

The report, led by lawyer Otto Rydbeck, found that bonus payments to Skandia management...

disclosed in annual reports.

But it did not find evidence to support claims that Skandia, the parent company owned by shareholders, had improperly benefited at the expense of Skandia Liv, the mutual arm which is responsible to its policyholders.

Case Study

Goran Persson, Prime Minister of Sweden:

It is necessary to introduce laws to supervise executive pay – for example, remuneration packages should be approved by shareholders at the annual general meeting.

"When the stock market turns up and the big money starts to roll in again there are always going to be those who claim that it was due to our services that shareholders got these billions and we ought to have 10 percent of it at least.

That's why we have to vaccinate ourselves and how that is done is not just a matter of morals and ethics, but also a question of making laws."

Financial Times

December 6-7, 2003

Case Study

QUESTION

Where does Sweden rank in Transparency International's corruption perceptions index?

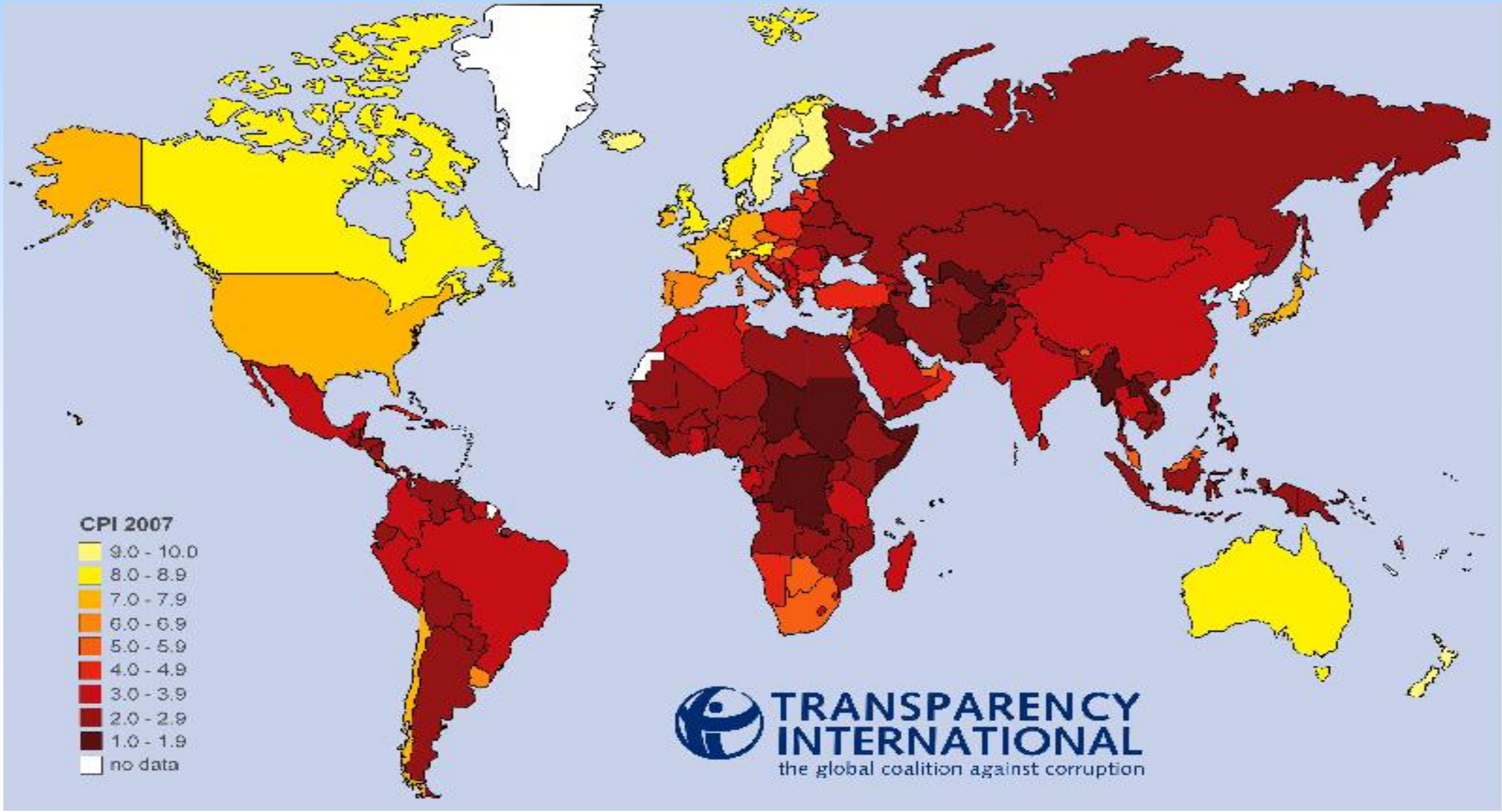
Case Study

Transparency International
2007 Corruption Perceptions Index
http://www.transparency.org/policy_research/surveys_indices/cpi/2007

1 Finland / Denmark / New Zealand	27 Slovenia	
4 Singapore / Sweden	28 Estonia / Portugal	
6 Iceland	39 Hungary / Cyprus	
7 The Netherlands / Switzerland	41 Czech Republic / Italy	
9 Canada / Norway	49 Slovak Republic	
11 Australia	51 Latvia / Lithuania	
12 Luxemburg / United Kingdom	61 Poland	
14 Hong Kong	64 Bulgaria / Croatia	
15 Austria	69 Romania / Ghana	
…		72 Brazil / India / China
177 Haiti		118 Ukraine
178 Iraq		143 Gambia / Indonesia / Russia / Togo
179 Myanmar / Somalia		

Case Study

Transparency International
2007 Corruption Perceptions Index
http://www.transparency.org/policy_research/surveys_indices/cpi/2007



Case Study

April 2004 – More damaging revelations about the scale of management bonuses at Skandia are revealed : more than EURO 434 million was paid out to senior executives. Most payments were made between 1997-2000 when Skandia grew rapidly.

Skandia attempted to explain the situation by publishing a statement which excluded details of its local incentive programs in the US and the UK, its two biggest units. Skandia said it had not initially given details of the UK scheme because "this could violate local UK data protection laws."

Case Study

April 2004 – At Skandia's annual general meeting of shareholders, shareholders vote against discharging the board of directors from liability for their actions during the previous financial year.

This allows shareholders the possibility of filing a lawsuit against the board of directors in the future.

Case Study

Skandia

19 March, 2004 07:30 CET

Notice of Annual General Meeting of Skandia

Notice of Annual General Meeting of Skandia

Shareholders of SKANDIA INSURANCE COMPANY LTD (publ) are hereby summoned to the Annual General Meeting to be held on Thursday, 15 April 2004, at 4.30 p.m. (Swedish time). Location: Globe Arena, Annex, Arenatorget, Entrance 2, Stockholm, Sweden.

NOTIFICATION OF ATTENDANCE, ETC.
Shareholders intending to attend the Annual General Meeting must

· be recorded as shareholders in the Shareholder Register maintained by the Swedish Securities Register Centre (VPC AB) as per Monday, 5 April 2004, and must

· notify Skandia of their intention to attend the Meeting not later than 4.30 p.m. (Swedish time) on Tuesday, 13 April 2004. Notification of intent to attend the Meeting shall be made in writing to Skandia, Corporate Law, "AGM", SE-103 50 Stockholm, Sweden, by telephone Int. +46-8-788 25 99 or +46-8-788 30 68, by fax Int. +46-8-788 15 50, or via the Internet at http://www.skandia.com/agm. Please note that if voting by proxy, power of attorney must be submitted to the Company in original and may not be sent by fax or via the Internet. Information provided to the Company will be used only in connection with the Annual General Meeting.

Shareholders whose shares are held in trust by a bank or private broker must temporarily register their shares in their own names in the Shareholder Register to be able to attend the Annual General Meeting. Such registration must be completed not later than Monday, 5 April 2004. Shareholders are advised to notify the trustee well in advance of 5 April of their request to have their shares re-registered.

INTERPRETATION OF THE PROCEEDINGS INTO ENGLISH
For the convenience of non-Swedish speaking shareholders, the proceedings of the Annual General Meeting will be simultaneously interpreted into English, if so requested in connection with notification of attendance to the Annual General Meeting.

AGENDA AND PROPOSED DECISIONS
1. Opening of the Meeting
2. Election of a chairman to preside over the Meeting
Nominating Committee Recommendation: Mr. Claes Beyer, Attorney at Law.
3. Setting of the agenda
4. Election of a person to check and sign the minutes together with the chairman
5. Verification of the voting list
6. Decision as to whether the Meeting has been properly called
7. Presentation of the Annual Report and the Consolidated Accounts for 2003

In connection therewith, a presentation of the work of the Board of Directors, and the work and duties of the Compensation Committee and the Audit Committee.
8. Address by Mr. Hans-Erik Andersson, CEO of Skandia
9. Presentation of the Audit Report and the Consolidated Audit Report for 2003
10. Approval of the Profit and Loss Account and Balance Sheet and the Consolidated Profit and Loss Account and Consolidated Balance Sheet for 2003
11. Decision on appropriation of the Company's profits in accordance with the adopted Balance Sheet, and determination of the record date for payment of a dividend
12. Decision as to whether to discharge the Directors and the President from liability for their administration during the 2003 financial year
13. Decision on Directors' fees
14. Decision on the number of Directors to be elected by the Meeting
15. Election of Directors
16. Decision on Auditors' fees

Nominating Committee Recommendation: Reasonable amount as invoiced.

17. Election of Auditors
Nominating Committee Recommendation: New election of Mr. Göran Engquist

Case Study

February 2005 – The former chairman of the board of directors, who was the chairman when huge bonuses were awarded to senior managers, agreed to pay back $323,000 to the company. The limited size of the payment angered many small shareholders.

Case Study

INSTRUCTIONS

Please read the excerpt from the comparative study entitled,

"Executive Pay: Convergence in Law and Practice Across the EU Corporate Governance Faultline" by Guido Ferrarini, Niamh Moloney and Cristina Vespro. European Corporate Governance Institute (ECGI) Law Working Paper 09/2003.

The excerpt describes the legal framework for disclosure of executive compensation in Sweden.

Case Study

"Executive Pay: Convergence in Law and Practice Across the EU Corporate Governance Faultline" by Guido Ferrarini, Niamh Moloney and Cristina Vespro. European Corporate Governance Institute (ECGI) Law Working Paper 09/2003.

"In Sweden, annual disclosure of senior executives' remuneration is required through listing agreements which incorporate a recommendation of the Swedish Industry and Commerce Stock Exchange Committee (*Naringslivets Börskomitté – NBK*)[1], to this effect.[2] As the recommendation is incorporated as a binding annex to the listing agreements, non-compliance is sanctionable.

[1]Available in English at www.naringslivetsborskomitte.se

[2]The recommendation is directed to Swedish and foreign companies whose shares or depository receipts are listed on a Swedish stock exchange or authorized marketplace. Foreign companies listed in Sweden can apply for an exemption from these rules. Exemption is often granted.

Case Study

Listed companies' annual reports must, as a result, provide information concerning remuneration and other benefits which 'senior executives'[3] receive from the company.[4]

[3]Senior executives include the chairman of the board , other directors who receive remuneration from the company in addition to the customary director's fee and who are not employed by the company, the managing director, the group chief executive (if any), and some salaried executives in the company's senior management team.

[4]If the benefits received by senior executives change significantly during the year, this must be made public in the first interim report.

Case Study

The disclosure must include remuneration and benefits provided by all group companies, whether Swedish or foreign. With respect to remuneration policy , the company is to specify the criteria adopted for senior executives' remuneration, particularly with respect to fixed and variable remuneration and their proportions. Information must also be provided on the pay-setting process. This should include whether or not a remuneration committee has been appointed and, if so, its mandate and composition.

Case Study

More specifically, information is to be provided individually for each "top manager"[5]

[5] The NBK recommendation defines "top management" as comprising the chairman of the board, board members who receive remuneration in addition to director's fee, the group chief executive, and the managing director.

Case Study

regarding: the total amount of remuneration and other benefits; all remuneration items not of minor importance; the fixed and variable components of remuneration, including the main criteria applied for the calculation of variable remuneration;[6] financial instruments, options or entitlements received during the year in connection with share price based incentive programmes, and their estimated market value on the date of allotment and the acquisition price;[7] financial instruments, other options or entitlements received during previous years in connection with share price based incentive programmes; and agreements concerning future pensions and severance payments."

[6]In case of variable remuneration(bonuses, earnings-related payments and similar remuneration), the total amount is to be stated in the form of the amount charged against the company's profits for the year. The main principles for calculating and determining the variable remuneration must also be disclosed.

[7] If there is no established market value for the instrument in question , a theoretical value should be calculated, in accordance with generally recognized valuation model. Information must be provided on the major assumptions used.

Case Study

QUESTIONS

1. Analyze the situation and state your position regarding the disclosure practices of Skandia.

Case in Study

QUESTIONS

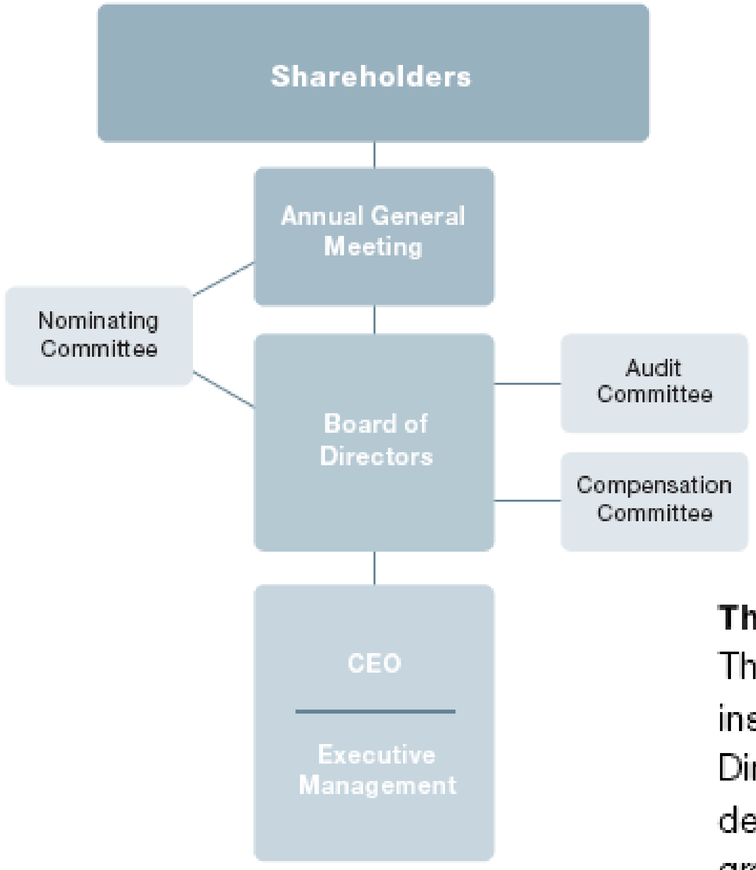
1. Analyze the situation and state your position regarding the disclosure practices of Skandia.
2. Was there a failure to disclose information as required by the binding rules of the Stockholm Stock Exchange?

Case Study

QUESTIONS

1. Analyze the situation and state your position regarding the disclosure practices of Skandia.
2. Was there a failure to disclose information as required by the binding rules of the Stockholm Stock Exchange?
3. If not, why not?
4. If so, who was responsible?
5. Comment on corporate governance at Skandia.

Case Study



The Board's Compensation Committee

The Compensation Committee's purpose, as laid out by the instruction drawn up for the committee by the Board of Directors and the compensation policy for the group, is to decide on salaries and other employment benefits for the group CEO and other members of the executive management. In addition, the Compensation Committee decides on the grants to be made to key executives in the group's employee incentive programmes. The Compensation Committee consists of three external directors.

Skandia – Annual Report - 2004

Case Study

NOMINATING COMMITTEE

Chairman[1]

Lars Ramqvist, born 1938
Chairman of the Board, Skandia

Representatives of the major shareholders

Carl-Olof By, born 1945
Executive Vice President, Industrivärden

Peter Fagernäs, born 1952
Chairman of Pohjola

Tor Marthin, born 1944
Executive Vice President, AMF Pension

Representative of the minor shareholders

Per Löfqvist, born 1943
Chairman, Skandia Shareholders' Association

Appointed by the Stockholm Chamber of Commerce as representative of Skandia Liv's policyholders

Lars Öberg, born 1936
Chairman of Brandkontoret, former CEO of Custos

[1] Lars Ramqvist left the Nominating Committee in connection with his announcement that he is resigning from Skandia's board at the 2003 AGM. Tor Marthin has thereafter served as chairman of the committee.

BOARD OF DIRECTORS

Elected by the Annual General Meeting

Lars Ramqvist, *Chairman of the Board*

Willem Mesdag, *Vice Chairman of the Board*

Eero Heliövaara

Oonagh McDonald

Lars-Eric Petersson,
President & Chief Executive Officer

Clas Reuterskiöld

Günter Rexrodt

Melker Schörling

Appointed by the Stockholm Chamber of Commerce

Maria Lilja

Appointed by the Swedish Consumer Agency

Boel Flodgren

Employee representatives

Stefan Dahlberg

Jac Gavatin

Ingolf Lundin

Company Secretary

Jan-Mikael Bexhed

Honorary Chairman

Sven Söderberg

EXECUTIVE MANAGEMENT BOARD

Lars-Eric Petersson

Jan Erik Back

Jan-Mikael Bexhed

Malcolm Campbell

Odd Eiken

Cecilia Kragsterman

Ulf Spång

Alan Wilson

Michael Wolf

AUDIT COMMITTEE

Lars Ramqvist, *Chairman of the Board*

Boel Flodgren, *Director*

Jan Birgerson, *Authorized Public Accountant*

Carl Lindgren, *Authorized Public Accountant*

Jan Erik Back, *CFO, co-opted*

Göran Edwin, *Head of Internal Audit, co-opted*

COMPENSATION COMMITTEE

Lars Ramqvist, *Chairman of the Board*

Willem Mesdag, *Vice Chairman of the Board*

Melker Schörling, *Director*

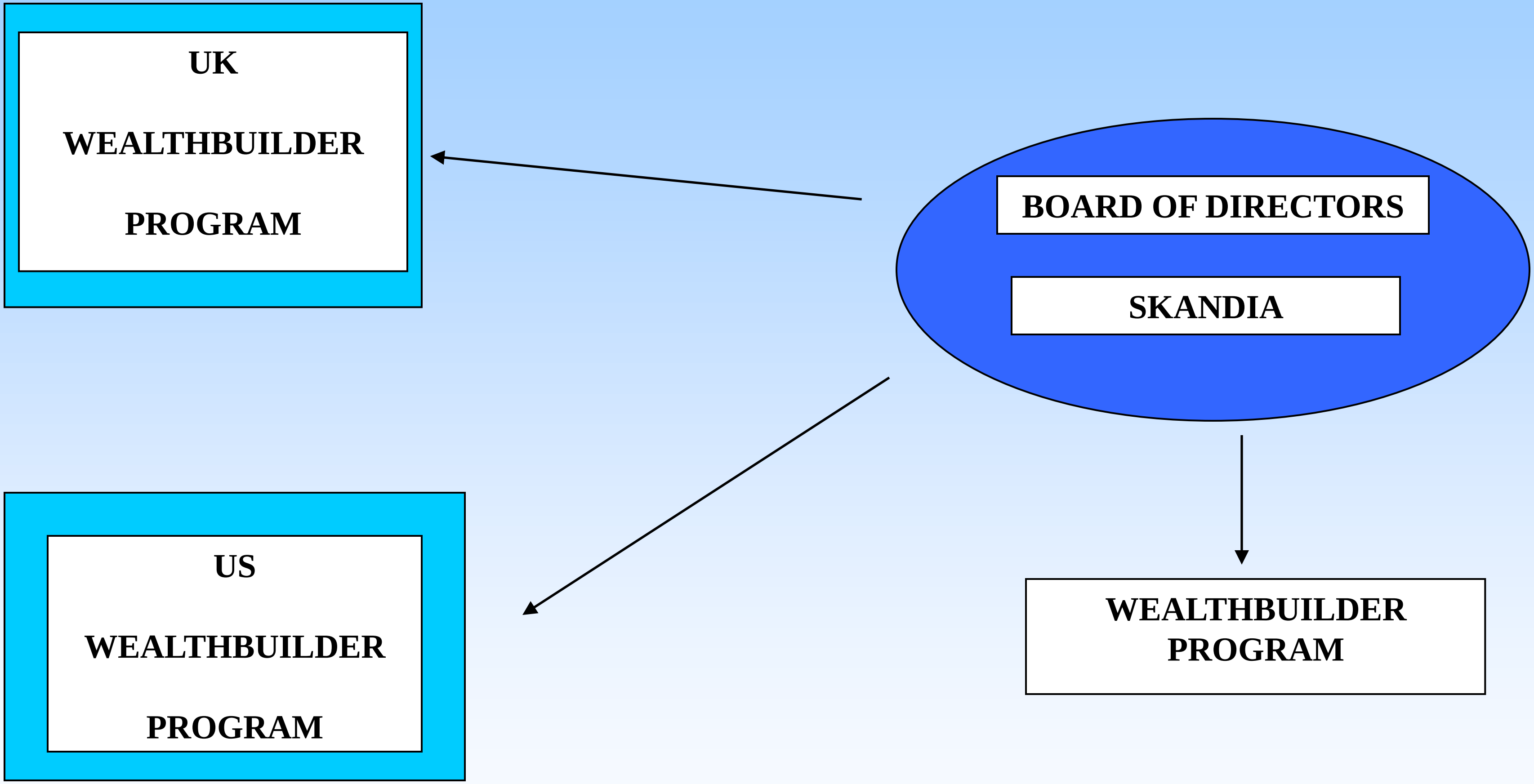
Skandia – Annual Report - 2004

Case Study

Information on ‘Wealthbuilder’ Program disclosed in Skandia Annual Reports: 1998 - 2004

1998	1999	2000 - 2002	2003	2004
No direct information on ‘Wealthbuilder program’ found; Assurance and Financial Services (AFS) mentioned.	No info on ‘Wealthbuilder’ program found	No info on ‘Wealthbuilder’ program found	Indirectly presented in the annual report of Skandia for 2003 and is included in the amount 696 million SEK referred to in the annual report.	1, Payments made to employees within America Skandia under the ‘Share Tracker’ and ‘Wealth Builder’ Programs. These payments were accounted for in the report published by the Board on April 14, 2004. This report is no longer available on the company’s website. 2. Explanation on ‘Wealth builder’ and ‘ Share tracker’ in memo of April 13, 2004; 3. The 2004 annual report does not disclose any information on the programs.

Case Study


UK
WEALTHBUILDER
PROGRAM
BOARD OF DIRECTORS
SKANDIA
US
WEALTHBUILDER
PROGRAM
WEALTHBUILDER
PROGRAM

Case Study

March 1, 2005 – The *Financial Times* reports that Skandia announced an operating loss in the fourth quarter of 2004. Although revenues increased, Skandia was forced to write down the value of its independent financial advisory business in the UK.

According to the article, "Analysts had expected Skandia to break up and divest one or more of its businesses, which include life assurance units in the UK and Sweden as well as a Swedish banking unit.

A series of scandals over bonuses and perks has hurt Skandia's reputation and sales in its home market. But analysts said that fourth-quarter results offered indications that the tide might be turning."

Case Study

March 18, 2005 – The *Financial Times* reports: “Kaupthing, the Icelandic bank, yesterday announced it had built a stake in Skandia, increasing expectations of an eventual break up of the the Swedish financial services group that has struggled to shake off scandals over management perks and bonuses.” According to the article, three other Icelandic financial institutions, two banks and one investment group, are also interested in acquisitions in Sweden.“

July 15, 2005 – The Swedish Corporate Governance Code comes into effect.

Case Study


Swedish Law on Squidoo - Windows Internet Explorer
http://www.squidoo.com/swedishlaw
swedish law
Go
Bookmarks
12 blocked
Check
AutoLink
Settings
Webmail
Microsoft ...
Fulbright ...
Swedis...
Strona
Narzędzia
Norton
Nie wykryto żadnego oszustwa
Opcje
Organization
Swedish Business Legislation
Please note that the English translations to which I link below may not be updated and thus not contain the legislation applicable today.
Swedish Code of Corporate Governance
Svensk kod för bolagsstyrning
Ministry of Finance, Swedish Government Official Reports SOU 2004:46
Auditors Act
2001:883 Revisorslag
Swedish Competition Act
1993:20 Konkurrenslag
Swedish Competition Act on the website of the Swedish Competition Authority
Public Procurement Act
Lag (1992:1528) om offentlig upphandling
Swedish Arbitration Act of 1999
Internet
100%
Start
Swedish Law on Squi...
PL
Norton
14:59

Case Study

September 2005 – Old Mutual, a South African insurance company, announces a bid for Skandia. The board of directors of Skandia is divided; some members are for the takeover, whereas others oppose it.

September 16, 2005 – According to the Financial Times, Skandia announced projected profits for 2005, 2006 and 2007. Some claim that the overly optimistic projections were an attempt to force Old Mutual to increase the price it offered for Skandia shares.

Case Study

September 24-25, 2005 – The *Financial Times* reports: "A split decision by the board of Skandia to reject a GBP3.3 billion ($5.9billion) takeover bid from Old Mutual of South Africa yesterday plunged the Nordic region's biggest insurance company deeper into uncertainty.

The board said Skandia, which has been struggling to emerge from management scandals and costly expansion, had better prospects as a stand-alone company. It said Old Mutual's offer 'undervalues Skandia's market position and growth opportunities,' adding it saw limited synergies between the operations.

Old Mutual's bid faces stiff opposition in Sweden, where about 50 percent of (Skandia's) shares are held. The South African bid for the oldest listed company on the Stockholm bourse is politically controversial, as many in Sweden fear that national interest would suffer if a company of its status moved its headquarters abroad."

Case Study

October 8-9, 2005 – The *Financial Times* reports: "The resignation of Skandia's chairman Bernt Magnusson, one of the minority board members backing a GBP3.3 billion ($5.9billion) takeover bid from South Africa's Old Mutual, yesterday thrust the offer for the Nordic region's biggest insurer deeper into jeopardy.

The chairmanship is being passed to Lennart Jeanson, one of the eight board members opposed to a takeover by the London-listed financial services giant.

Skandia shares fell 1.5 percent to SKR39.70, their lowest level since May, when bid speculation started propelling the stock. The price is now well below Old Mutual's cash and equity offer at SKR43.60, indicating that the market's conviction of an eventual deal has declined, although analysts said Mr. Magnusson's resignation was expected and ought not to impact the outcome.

Old Mutual's bid faces stiff opposition in Sweden, where about 50 percent of Skandia's shares are held."

Case Study

October 11, 2005 – The *Financial Times* reports that Skandia had updated its shareholder structure reporting, noting that 60 percent of shares were now held by foreigners.

October 12, 2005 – According to the *Financial Times* "Skandia's ownership has slipped largely into foreign hands as Swedish shareholders – among them some of the key opponents to a deal with Old Mutual – have divested Skandia shares in the last month.

Old Mutual made its offer to Skandia shareholders public.

Case Study

December 21, 2005 – Old Mutual gained control (62.5 % of votes)over Skandia through a hostile bid. According to the *International Herald Tribune*, ‘Skandia faced internal turmoil before Old Mutual started its bid. In January 2004, the company replaced its chief executive amid criticism over bonuses paid to executives. This year, it had to reserve 507 million kronor in the second quarter for American Skandia, a former business that was among companies investigated by the U.S. Securities and Exchange Commission over improper trading of mutual fund shares.’

Case Study

<u>QUESTIONS</u>

1. **What impact did the scandal have on Skandia?**

Case Study

QUESTIONS

1. **What impact did the scandal have on Skandia?**
2. **What does this case tell us about corporate governance?**

Case Study

QUESTIONS

1. **What impact did the scandal have on Skandia?**
2. **What does this case tell us about corporate governance?**
3. **Who cares about corporate governance?**

Case Study

QUESTIONS

1. **What impact did the scandal have on Skandia?**
2. **What does this case tell us about corporate governance?**
3. **Who cares about corporate governance?**
4. **Who cares about corporate governance of insurance companies?**

Case Study

February 17, 2006 – The trial of former Skandia CEO (Lars-Eric Petersson) begins. The prosecutor explained that the prosecution consisted of two cases of "breach of trust against a principal."

The prosecutor aims to to prove that Mr. Petersson raised the company's bonus limits for the year 1998/99 without the approval of the board. This led to at least 185 million Swedish kronor (Euro 19.7 million) too much being paid out to those participating in the company's Wealthbuilder program.

In addition, the prosecutor accuses Mr. Petersson of receiving 37 million Swedish kronor (Euro 3.9 million) more than the board had approved for his pension.

The maximum penalty for the crime of "breach of trust against a principal" is six years imprisonment.

The case was heard in Stockholm district court.

Case Study

QUESTIONS

1. **How would you investigate this case?**

Case Study

QUESTIONS

1. **How would you investigate this case?**
2. **What documentation would you seek as evidence?**

Case Study

May 24, 2006 – Mr. Petersson is convicted of distributing 156 million Swedish kronor (Euro 16.6 million) in bonuses to managers without permisison from the board.

The Stockholm court decision states that he had ignored limits on payments to senior staff at Skandia.

The court acquited Mr. Petersson of adding 37 million Swedish kronor (Euro 3.9 million) to his retirement plan without authoriaation.

He receives a two year jail sentence.

BBC NEWS: http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/5014522.stm

Case Study

December 15, 2006 - The court informs Mr. Petersson, that he does not have to pay damages to his old company. The company had demanded 300 million Swedish kronor (Euro 32 million) from its former CEO.

Case Study

June 20, 2007 – Stockhom Svea's Court Appeal reduces the jail term of Ola Ramstedt, the company's former human resources manager, to 18 months. The district court had originally sentenced him to two years imprisonment.

Case Study

Questions:

What do you think about the decision of the court?

Case Study

Questions:

What do you think about the decision of the court?

What do you think about this case?

Case Study

Thus far, we have analyzed various company-specific (micro) and market (macro) implications of Skandia's governance failures:

impetus towards Swedish Corporate Governance Code;

negative press coverage about the company;

takeover by Old Mutual;

regulatory action in the US;

prosecutions and imprisonment in Sweden.

How else can poor governance be addressed?

Case Study

International Herald Tribune
Friday, February 29, 2008

Just shoot all of the accountants?

"Should we blame the accountants? Surprises multiplied as the subprime problem of 2007 grew into the credit crunch of 2008.

It is one thing to have a bank report losses because some of the loans on its balance sheet went bad. That is part of the business of banking. It is something else however, for a bank to report a multi-billion dollar loss from taking some risk that had never been mentioned in its financial statements.

Haven't we seen this movie before, involving a company called Enron? Didn't Congress just pass a law requiring that the problem of the off-the-balance sheet mysteries be solved?"

Floyd Norris – New York

Case Study

Financial Times
Thursday, February 21, 2008

Report highlighting 'weaknesses' in controls turns up heat on SocGen

Pressure on bank chief Bouton intensifies

By Scheherazade Daneshkhu and Peggy Hollinger in Paris

Daniel Bouton, chairman and chief executive of Société Générale, faces further pressure today after the independent directors of the stricken bank last night identified "weaknesses" in its controls that led to the biggest fraud in banking history.

Although the report did not blame the bank's management for the €4.9bn loss, allegedly masterminded by junior trader Jérôme Kerviel, it identified failures in the bank's controls which it said needed to be addressed "without delay".

The 27-page interim report commissioned by the three-man crisis committee, headed by Jean-Martin Folz, former Peugeot boss, paints a picture of lax supervision in which controls appear to have been exercised in a box-ticking manner rather than through persistent enquiry.

One reason the alleged fraud was not discovered in spite of concerns raised by Eurex, Europe's leading derivatives exchange, was that, according to the report, Mr Kerviel's supervisor "was satisfied by the trader's explanation without verifying it".

This was in spite of Mr Kerviel's explanation contradicting Eurex.

The report also said there were also no controls on cancelled trades or trades that had been modified – a key technique employed by Mr Kerviel. It found that the people charged with carrying out the controls did not routinely inform their superiors about anomalies even when "significant sums" of money were involved.

While the report found no evidence that Mr Kerviel benefited personally from his trading activities, it said he may have done so by artificially boosting his paper transactions and therefore the bonus he could claim for 2007.

The report said that Mr Kerviel was paid a €60,000 bonus in 2006. "He demanded €600,000 for 2007 but only obtained €300,000," it said. This is significant because the sharp change in his trading record could arguably have raised suspicions about his activities.

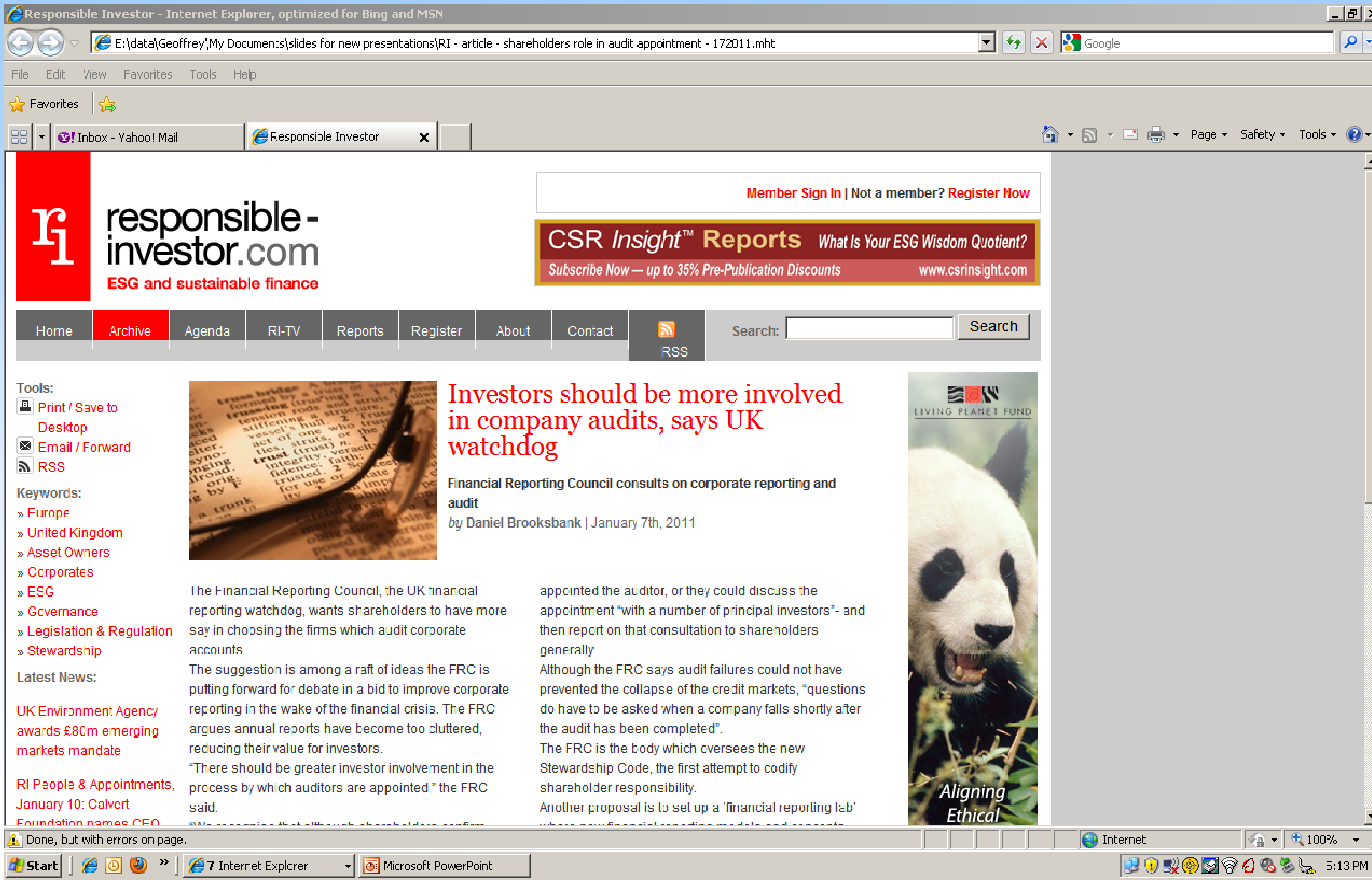
Although the report said there was no evidence so far of accomplices, the inquiry revealed areas for further investigation including "the extended internal network of personal relationships that Mr Kerviel had, in particular with the support and control teams".

Mr Kerviel has denied allegations of fraud.

The independent directors said they had refrained from apportioning blame because of the ongoing legal investigation.

European View, Page 18

Case Study



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Investors should be more involved in company audits, says UK watchdog

Financial Reporting Council consults on corporate reporting and audit

by Daniel Brooksbank | January 7th, 2011

The Financial Reporting Council, the UK financial reporting watchdog, wants shareholders to have more say in choosing the firms which audit corporate accounts.

The suggestion is among a raft of ideas the FRC is putting forward for debate in a bid to improve corporate reporting in the wake of the financial crisis. The FRC argues annual reports have become too cluttered, reducing their value for investors.

"There should be greater investor involvement in the process by which auditors are appointed," the FRC said.

appointed the auditor, or they could discuss the appointment "with a number of principal investors"- and then report on that consultation to shareholders generally.

Although the FRC says audit failures could not have prevented the collapse of the credit markets, "questions do have to be asked when a company falls shortly after the audit has been completed".

The FRC is the body which oversees the new Stewardship Code, the first attempt to codify shareholder responsibility.

Another proposal is to set up a 'financial reporting lab'

Done, but with errors on page. Internet 100%

Case Study

Responsible Investor

Investors should be more involved in company audits, says UK watchdog

Financial Reporting Council consults on corporate reporting and audit

***by* Daniel Brooksbank**

January 7, 2011

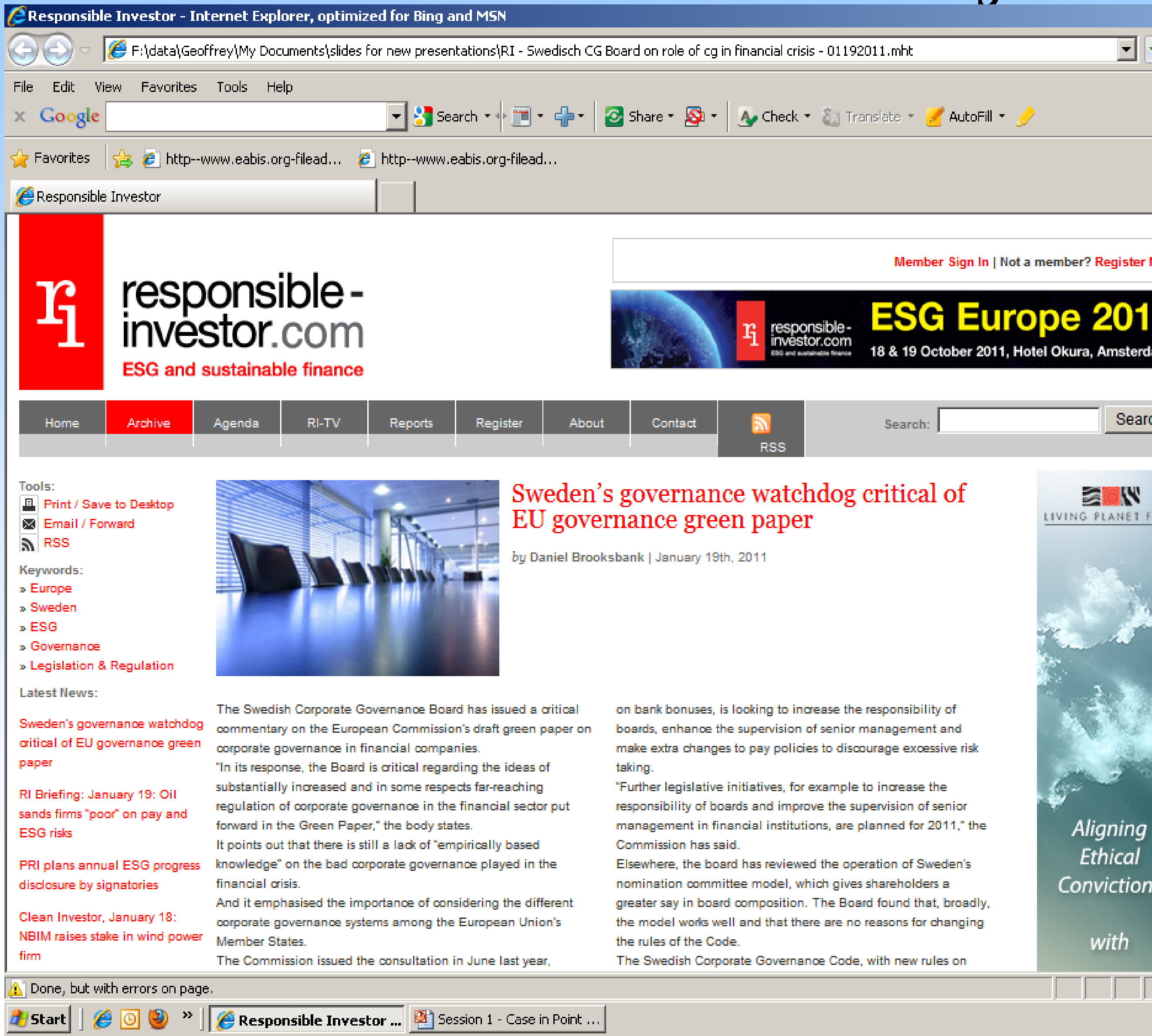
The Financial Reporting Council, the UK financial reporting watchdog, wants shareholders to have more say in choosing the firms which audit corporate accounts.

The suggestion is among a raft of ideas the FRC is putting forward for debate in a bid to improve corporate reporting in the wake of the financial crisis. The FRC argues annual reports have become too cluttered, reducing their value for investors.

"There should be greater investor involvement in the process by which auditors are appointed," the FRC said.

We recognise that although shareholders confirm auditor appointments, management is perceived to determine the appointment (or reappointment) and remuneration of auditors and that, therefore, auditor independence is compromised. "

Case Study


Sweden's governance watchdog critical of EU governance green paper

by Daniel Brooksbank | January 19th, 2011

The Swedish Corporate Governance Board has issued a critical commentary on the European Commission's draft green paper on corporate governance in financial companies.

"In its response, the Board is critical regarding the ideas of substantially increased and in some respects far-reaching regulation of corporate governance in the financial sector put forward in the Green Paper," the body states.

It points out that there is still a lack of "empirically based knowledge" on the bad corporate governance played in the financial crisis.

And it emphasised the importance of considering the different corporate governance systems among the European Union's Member States.

The Commission issued the consultation in June last year, on bank bonuses, is looking to increase the responsibility of boards, enhance the supervision of senior management and make extra changes to pay policies to discourage excessive risk taking.

"Further legislative initiatives, for example to increase the responsibility of boards and improve the supervision of senior management in financial institutions, are planned for 2011," the Commission has said.

Elsewhere, the board has reviewed the operation of Sweden's nomination committee model, which gives shareholders a greater say in board composition. The Board found that, broadly, the model works well and that there are no reasons for changing the rules of the Code.

The Swedish Corporate Governance Code, with new rules on

The Swedish Corporate Governance Board has issued a critical commentary on the European Commission's draft green paper on corporate governance in financial companies.

…

It points out that there is still a lack of "empirically based knowledge" on the bad corporate governance played in the financial crisis."

Case Study

Financial Times

Fall in confidence preceded turmoil

by Sarah O'Connor in London

Friday, August 12, 2011

FT/Economist Global Business Barometer

"The survey of more than 1,500 executives worldwide, conducted between June 22 and July 29, suggests that the corporate world was rapidly losing faith in the future even before panic broke out in global stock markets last week."

Are the big banks escaping appropriate regulation?

TOTAL	59.3	16.1	24.6
	YES	DON'T KNOW	NO
FINANCIAL SERVICES	45.8	9.8	44.4

Case Study

Financial Times

Fall in confidence preceded turmoil

by Sarah O'Connor in London

Friday, August 12, 2011

FT/Economist Global Business Barometer

If yes, where would you like to see more action from regulators? Select up to three

	Requirements on Capital Reserves	Controls on Pay and Bonuses	Reporting and Governance Standards
TOTAL	52.9	46.1	43.2
FINANCIAL SERVICES	55.5	39.6	39.0

Case Study

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- 2010
- 2009
- 2008
- 2007

Working papers of 2010

SIRP WP 10-16

Joakim Sandberg and Jonas Nilsson

Conflicting Intuitions about Ethical Investment: A Survey among Individual Investors (PDF)
December 22, 2010

Abstract
This present paper relates the results of an exploratory survey distributed among individuals invested in so-called ethical (or socially responsible) mutual funds, and attempts to develop a better understanding of these individuals' ethical beliefs – especially concerning whether, or why, they think that the practices of contemporary ethical funds indeed are ethical. Survey questions were informed by the contemporary philosophical literature pertaining to the ethics of investing and designed to elicit the respondents' basic intuitions about the ethics of different investment strategies. Our results indicate that respondents show considerable support for both a moral purity perspective and a moral effectiveness perspective, and they seem to find it difficult to choose between these perspectives. Indeed, we find that this is not just a conflict between different groups of investors with different moral outlooks, but many individuals themselves seem to be struggling with conflicting ethical intuitions. We argue that these results are incompatible with the idea that ethical investors refrain from thinking systematically about ethics simply in order to be able to get away with also investing in non-ethical funds. A more probable explanation is developed building on the contemporary psychological literature concerning intuitions in ethics.

Case Study

SIRP WP 09-09 - UPDATED VERSION 3

Eli Amir, Juha-Pekka Kallunki and Henrik Nilsson

Personal Character and Firm Performance. The Economic Implications of Having Unethical Board Members (PDF)
July 21, 2010, Version 3

Abstract
Unique proprietary data on Swedish board members reveal that a non-trivial proportion of board members in Swedish listed firms have been convicted of crimes. We hypothesize and ***find evidence supporting the argument that criminal convictions and other proven dishonest*** behavior impair the boards' ability to monitor and advice the firm's management. Specifically, we find that the greater the proportion of unethical board members, the lower is profitability and the higher are the volatility of earnings and cash flows. We also find that earnings of firms with more unethical board members are lower and less value-relevant. Finally, we find that board members exhibiting unethical behavior are more likely to be ***males than females. Our results suggest that individuals' behavioral aspects should be considered when appointing them to the board.***

Keywords: Unethical behavior, Convicted board members, Corporate governance, Profitability, Accounting quality, Earnings volatility

Case Study

Norwegian women break down boardroom barriers

Women account for about 35% of board membership at Norwegian public limited companies thanks to a pioneering new law, AFP reports. This proportion is the highest in the world. As of January 1st 2008, Norwegian legislation requires public limited companies to have at least 40% women on their boards or close their doors to business. The law -- the brainchild of the previous centre-right government in 2003, at a time when women represented only 15.5% of board members -- initially met with strong opposition, but has now become an unquestionable part of Norwegian mores. Not one of Norway's companies appears to be at risk of closure for non-compliance.

Sources: CSR Europe – January 3, 2008

http://www.csreurope.org/news.php?type=&action=show_news&news_id=1044

AFP – December 22, 2007

http://afp.google.com/article/ALeqM5jM5N8pCjJu5VYIrmuEShjr-PYjkQ

Case Study

Telekom-Vorstoß: Großkonzerne sperren sich gegen Frauenquote - SPIEGEL ONLINE - Nachrichten - W - Internet Explorer, optimized

http://www.spiegel.de/wirtschaft/unternehmen/0,1518,683667,00.html

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Gleichstellung von Frauen

Alle Artikel und Hintergründe

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Telekom-Vorstoß

Großkonzerne sperren sich gegen Frauenquote

Von Sven Böll und Michael Kröger

Die Telekom prescht vor - und keiner folgt nach. Das Unternehmen ist der einzige Dax-Konzern, der eine Frauenquote für Chefposten einführt, die anderen Firmen belassen es bei wohlfeilen Förderprogrammen. Eine Umfrage von SPIEGEL ONLINE zeigt: In Deutschland gibt es fast keine Managerinnen.

Hamburg - Eine Überfliegerin war Barbara Kux schon immer. Egal ob beim Nahrungsmittelgiganten Nestlé, bei dem sie mit Mitte 20 anheuerte, in ihrer Tätigkeit als Unternehmensberaterin bei McKinsey, beim MBA-Studium an der Eliteschmiede INSEAD in Fontainebleau oder bei der Berufung in den Kreis der "Global Leaders of Tomorrow" durch das Weltwirtschaftsforum in Davos: Die 56-Jährige hat stets das Gros der Konkurrenten durch bessere Leistungen

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Executive Compensation – International Comparison

What is ratio between the compensation of an average employee and the CEO of a manufacturing company in the following countries:

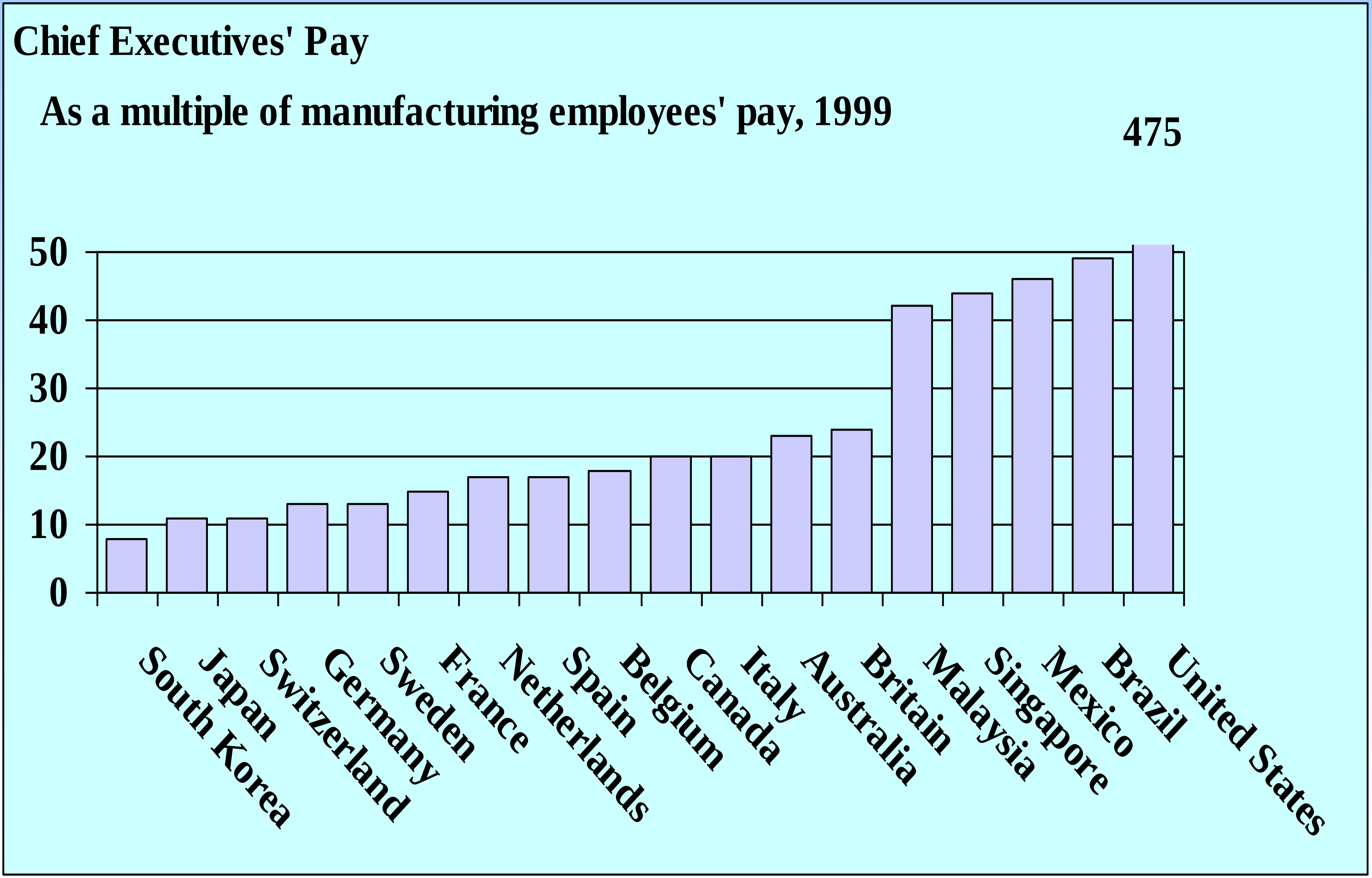
Germany

Japan

Sweden; and

the USA?

Executive Compensation – International Comparison



Sources: Towers Perrin; Standard & Poor's as reported in *The Economist*, September 30, 2000 oekom research

newsletter 09/2011

Executive pay: restructuring making slow progress

The German Federal Government's 2009 law on the appropriateness of management remuneration was intended to correct misguided managerial pay incentives and to achieve greater transparency and a reduction in short-term thinking. The Hans Böckler Foundation has commissioned an evaluation of the annual business and remuneration reports of the DAX-30 companies in order to assess how successful the law has been.

According to the study, all the companies are complying with the new legal guidelines, which stipulate that executive remuneration packages must be approved by all the members of the supervisory board. While this has provided greater internal transparency, the Hans Böckler Foundation believes that external transparency can only be achieved through the adoption of a uniform and straightforward model. Furthermore, all the DAX-30 companies are increasingly linking the short-term performance-related pay of their management boards to economic indicators which have to be attained over a period of two or three years. Many of them have also lengthened the periods used for calculating longer-term variable remuneration. Financial indicators continue to be the dominant criteria used to measure corporate success and to calculate variable remuneration. In 2010, just seven of the DAX companies also used criteria such as customer and employee satisfaction or environmental issues. According to the authors of the study, these do at least constitute the first steps towards basing the calculation of remuneration on qualitative yardsticks focussing on sustainability.

Further information (in German) can be found at:
http://boeckler.de/14_37883.htm

Case Study

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ESG and sustainable finance

News Alert

October 6th, 2011

RI News Alert:

- ESG Europe: Responsible investors oppose European financial trading tax proposals
- European SRI giant Dexia AM reassures over mandates amid crisis
- Sweden's AP2 votes against three-quarters of pay proposals at foreign firms

Source: Responsible Investor – News Alert – October 6, 2011

Case Study

Conclusions

Case Study

Conclusions

Corporate governance has a direct impact on company culture and company performance.

Shareholders (investors) and stakeholders value corporate governance information, because it helps them analyze, evaluate and monitor the company as well as engage with the company.

Corporate governance is one of three major “extra-financial” issues on which socially responsible investors focus.