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Economiesuisse
Mr. Thomas Pletscher
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London 10 August 2007

Dear Mr Pletscher,

Response to the consultation on the remuneration appendix to the Swiss Code of Best Practice for Corporate Governance

Hermes appreciates the opportunity to take part in the consultation on the proposed appendix to the Swiss Code of Best Practice for Corporate Governance in which additional guidance on board and executive remuneration is provided. We are generally supportive of the proposed guidance but would urge Economiesuisse to recommend an advisory vote of shareholders on the remuneration report so as to ensure an adequate involvement of shareholders in respect of remuneration.

By way of background, Hermes Pensions Management Limited is owned by, and is the principal fund manager for, the BT (British Telecom) Pension Scheme, the UK's largest. Hermes also manages portfolios for Royal Mail Pension Plan and over 200 other clients including many major pension schemes. In total, Hermes manages approximately €105 billion. As part of its Equity Ownership Service (EOS), Hermes also advises non-investment clients on environmental, social and governance matters in respect of a further €25 billion of equities. These include the British Coal Staff Superannuation Scheme, the BBC's Pension Fund, the Irish National Pensions Reserve Fund (NPRF) and Pensionskassernes Administration A/S, one of the largest administration companies for occupational pension funds in Denmark.

Hermes is an acknowledged global leader in the field of corporate governance and shareholder responsibility. We actively exercise our clients' rights and responsibilities as shareowners worldwide, which includes but is not limited to voting at general meetings of their portfolio companies and engaging with companies to promote long term value.

Remuneration is a very important issue to our clients because it sets the framework

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of incentives for long term wealth creation. As such we encourage companies to seek a constructive dialogue with shareholders on remuneration issues. We believe that successful companies should provide remuneration through a well-defined remuneration policy that ensures pay structures properly incentivise long term shareholder value creation. They should clearly communicate their strategic objectives and explain how their remuneration policy contributes to achieving these. Shareholders should be adequately involved in respect of remuneration issues and have a formal means to express an opinion on the underlying policy.

We welcome the additional recommendations on remuneration proposed by Economiesuisse in the form of an appendix to the Swiss Code of Best Practice for Corporate Governance. Many of the recommendations reflect best international practice. In particular we commend the proposal to establish remuneration committees consisting entirely of independent members - though we would have preferred a stricter definition of independence - and the general rule against "golden parachutes", even in change of control situations. Going forward, we strongly encourage Economiesuisse carefully to consider and take into account the remuneration guidelines of the International Corporate Governance Network (ICGN) (available at: www.icgn.org).

We are disappointed however with regard to the proposed recommendation 9. which deals with the involvement of shareholders in respect of remuneration. We would have preferred a clear recommendation in favour of an advisory vote of shareholders on the remuneration report rather than the proposed approach which gives companies two options and thus in effect allows them to continue with the current system (by choosing option 1.).

In our experience the current Swiss system does not ensure an adequate involvement of shareholders in respect of remuneration. We believe that shareholders should be given the opportunity formally to express their opinion regarding the design and the implementation of a company's remuneration policy. It is important however to separate the issue of remuneration policy from other equally significant but different matters such as the approval of the annual accounts and the discharge or re-election of members of the board. We therefore do not believe that the recommendation should give companies the freedom to choose between option 1. and option 2.. In our experience, the introduction of an advisory vote of shareholders on the remuneration report benefits all parties involved by encouraging a constructive dialogue on the important issue which generally results in a better alignment of interests through the remuneration policy.

In several major markets, including the UK, Netherlands, Australia and Sweden, shareholders already have the opportunity to vote on the overall remuneration policy. From our experience as an investor in these markets, we see a positive contribution to both level and quality of communication on remuneration between companies and shareholders. Indeed, discussion around the advisory vote provides companies with an additional channel to communicate their strategy to shareholders. In fact we are seeing that communication on remuneration often involves a discussion of long term objectives. As such advisory votes are becoming a practical tool for addressing short-termism. Moreover, remuneration in these markets seems to become more closely aligned to long term performance. Boards and remuneration committees appear to be better positioned to exercise independent judgement when they need to seek shareholder support for their proposals in respect of executive remuneration.

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As the advisory vote of shareholders on remuneration policy is non-binding, it leaves companies enough flexibility. Nevertheless it provides better accountability to investors, who - as the ultimate owners whose capital is at risk - are in the best position to provide the necessary oversight in respect of remuneration. For these reasons we would urge Economiesuisse to amend recommendation 9. in the final remuneration appendix so as to request companies to give shareholders an advisory vote on the remuneration report.

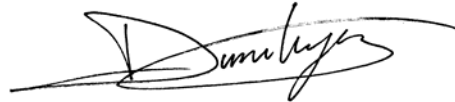
Finally, we would note that ensuring an adequate involvement of shareholders in respect of remuneration required legislative measures in a number of countries. We do not believe that this is necessarily the best approach for Switzerland and strongly believe in self-regulation. However, we do believe that on this particular issue, a clear recommendation in favour of an advisory vote of shareholders on the remuneration report is required to move best practice forward.

We trust that you will carefully consider our comments and suggestions and where appropriate take them as constructive input to the strengthening of the Swiss Code of Best Practice for Corporate Governance in respect of remuneration. If you would like to discuss our views in further detail, or if we can be of any further assistance, please do not hesitate to contact us.

Yours sincerely,



Dr. Hans-Christoph Hirt



Natacha Dimitrijevic