

Investment Management Alert

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Swiss Remuneration Rules

In recent years, a number of hedge fund managers have either established or considered establishing operations in Switzerland. The changing regulatory environment for managers in the UK has been one of the reasons making Switzerland seem an increasingly attractive location. The outcome of the recent Swiss referendum regarding rules limiting executive compensation has, however, created concern in the industry that Switzerland may no longer be an attractive jurisdiction from which to operate.

The New Rules

The new measures include:

- giving shareholders a binding vote on executive pay
- limiting the mandate of board members to one year
- banning golden handshakes and golden parachute payments
- banning bonuses paid for takeovers or for the sale of part of a business.

Executives who fail to abide by the new rules could face up to three years in jail and fines equivalent to up to six years of salary.

Possible Impact

Notwithstanding hedge fund managers' initial concerns, the measures only cover Swiss companies listed on either Swiss or foreign stock exchanges. The number of hedge fund managers that fall within the scope of the rules is therefore likely to be extremely limited.

If the rules do apply, only the compensation packages of board members and "company heads" would need shareholder approval. This may serve to further mitigate the potential impact on key trading and operational staff's remuneration.

Next Steps

The Swiss government will draw up a proposed law to present to parliament. This process is likely to take at least a year to conclude.

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