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SELF REGULATION AND GUIDANCE

Recommendations on Corporate Governance

This English language translation of the Recommendations on Corporate Governance has been prepared for information purposes only. Only the French version can satisfy legal requirements.



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INTRODUCTION

Through the amount of assets they manage, asset management companies acting on behalf of their clients represent a significant percentage of market capitalisation. Complying with their professional code of ethics, they exercise their fiduciary responsibilities with full independence particularly *vis-à-vis* security issuers and for the exclusive benefit of their clients.

In line with the conviction that good corporate governance practices increase the value of their clients' investments, management companies intend to exercise all their rights and duties as shareholders, particularly by actively participating in the general meetings of listed companies.

As early as 1997, the AFG code of ethics recommended that its members exercise their voting rights in the interest of their clients. The impact of these recommendations was amplified through the impetus of both the Financial Security Law (LSF) of 2003 and the General Regulation of the French securities regulator, *Autorité des Marchés Financiers (AMF)*. French law provides that management companies exercise the voting rights attached to shares held by collective investment funds (CIF) they manage and requires that, should they not exercise such right, they explain their decision. The regulations require managers to publish a "Voting Policy" stating the conditions under which they intend to exercise the voting rights attached to the shares held by the CIFs they manage. These regulations further require management companies to report on the conditions under which they exercised the relevant voting rights.

In 1997, with the aim of providing guidance to AFG members on the exercise of their voting rights, the AFG Board of Directors also established a Corporate Governance Committee, chaired until 2018 by Jean-Pierre Hellebuyck. The Committee was allocated the responsibility of publishing a Code of Corporate Governance. The recommendations resulting from this early work, published in 1998, are updated regularly. The present 2023 edition is thus the twenty first version of this Code.

These recommendations are intended for companies whose shares are listed for trading either on a regulated French market or on a multilateral trading platform; their principles are also to apply to all investments made abroad by investment managers.

By encouraging a continuous improvement process, AFG invites small and medium sized listed companies to make their best efforts to comply with these recommendations. A proportionate approach may apply to several provisions, for instance the provisions on the separation of functions as well as, for companies whose board is composed of a limited number of directors, the assignment of board committees (audit, nominations, remuneration) functions to individual members free from conflicts of interest and well qualified in the concerned field.

These recommendations are intended as a guide for setting shareholder-voting criteria for resolutions, notably for helping managers that are AFG members.

The main objectives of corporate governance which are now well-known meet with a wide consensus in Europe through many corporate governance codes.

As AFG is particularly committed to maintaining a close link between the right to vote and the final shareholder, any European reform of securities law should preserve this link as part of future developments. It is essential to ensure the maintenance of shareholders' rights in France.

I - THE GENERAL MEETING

The General Meeting is the privileged place for shareholders to exercise their rights on the company.

The General Meeting is a sovereign institution. It can decide to dismiss the board of directors or the supervisory board to which it delegates powers. As such, it is a decisive factor in a company's corporate governance.

Nevertheless, the General Meeting should not assume decision-making prerogatives or take initiatives that are within the board's jurisdiction as defined by the regulations.

AFG, that has always taken the view of the importance of exercising voting rights at general meetings, suggests that they elaborate their voting policy and disclose it on their website.

This ethical rule has been reaffirmed by the law that requires them to exercise the voting rights attached to portfolio shareholdings in the exclusive interest of clients, and, where they do not exercise them, to explain their reasons.

AFG recommends that this voting policy be consistent with a medium/long term perspective and a responsible approach.

Information available to issuers prior to general meeting, particularly sent those from the centralizers, should not be used to attempt to influence or modify a vote of the shareholders, particularly those of managers.

▮ A. Facilitating participation in general meetings – providing appropriate information to shareholders

1) Timing of general shareholders' meetings

Shareholders should be informed as soon as possible of a company's situation and be able to react to this situation, particularly through voting on resolutions. Therefore, general meetings of companies should be held as soon as possible after the publication of the company's financial statements.

2) Procedures for holding the general meeting

The existence of a structured general meeting, with as many shareholders as possible contributes to the quality of the debate. Consequently, the participation of shareholders to General Meetings should be encouraged.

AFG recommends such consideration to be considered in determining the place, date, and time of companies' general meetings.

The holding of multi-site general meetings, for companies that have the means, can be one of the responses to this concern.

AFG is in favour of the use of electronic means of transmission and video-conferencing facilities to facilitate participation to shareholders' meetings.

On the other hand, except in cases of *force majeure* or regulatory restrictions prohibiting the holding of physical general meetings, AFG is not in favour of holding general meetings only in virtual form.

AFG recommends hybrid general meetings which offer the possibility of attending the general meeting either in site or remotely with the same rights.

A hybrid general meeting should allow remote shareholders to be able to exercise all the rights, under conditions like those of shareholders physically present, such as the right to ask questions during the meeting, to dismiss or propose directors or to vote directly on the resolutions submitted to the general meeting.

3) Shareholder information required before the general meeting

AFG places great importance on the timely delivery to shareholders, as soon as possible after the meeting notice, of all the general meeting-related documents and information. These documents should be available on issuers' and of the *Autorité des Marchés Financiers (AMF)*'s websites at least 28 days before the general meeting.

It is the responsibility of the company and of the custody account keeper to exercise their best effort to ensure that the voting materials and the necessary information to cast votes are delivered in a timely manner to facilitate the exercise by shareholders of their voting rights.

AFG recommends that companies publish on their website practical information concerning participation to general meetings and voting forms.

To improve the information provided by companies to shareholders, AFG recommends that companies ensure that an updated version of their articles of association and the board's internal rule are always available on their websites.

AFG recommends that the company maintain an updated version of its bylaws and the board's internal rules on its website.

4) Information available to all

All shareholders, regardless of their nationality, must have access to the same quality of information, particularly when the company is listed on more than one market. In order to facilitate informed participation, the use of other languages commonly used in the financial sphere, in addition to the French language, such as the English language, should be encouraged, for all or part of the documentation prepared for shareholders' meetings.

5) Explanation of the proposed resolutions

As a general principle, AFG recommends that each resolution submitted to the vote of shareholders be accompanied by sufficiently detailed explanations allowing them to clarify their voting decision and particularly to specify the issues.

A pedagogical approach to the content of the resolutions is desirable. It may be achieved for instance through a detailed meeting convening brochure.

AFG requests that issuers clearly explain the purpose and consequences of proposed resolutions, particularly those relating to appointments and renewal of board members, executive compensation as well as authorisations for financial transactions.

Thus, in the case of a vote on candidacies of board members or members of the supervisory board, AFG asks that shareholders be provided with:

- ▶ reasons justifying this proposal, in particular skills the candidate will bring to contribute to the work of the board,
- ▶ a detailed *curriculum vitae* mentioning functions and mandates of the candidate, both in France and abroad (distinguishing those exercised in companies of the group and outside the group), when relevant, possible conflicts of interest (by indicating any links between the company where the candidate exercises his main functions and the one in which he seeks a position as a member of the board),
- ▶ the criteria used by the board of directors and its nominating committee to qualify the candidate as free of conflict of interest (by indicating particularly any relationship between the company where the candidate exercises his main functions and the one in which he seeks a position as a member of the board).

In the specific case of resolutions on the appointment of directors representing employees and employee shareholders, their election process (number of voting rounds, number of votes obtained ...) should be clearly disclosed.

AFG is in favour of the direct and indirect participation of employees in the company's capital.

Whenever related-party transactions are not clearly detailed in the auditor's special report, AFG recommends that additional information be provided in the board's report. In any case, AFG recommends the auditor's special report on related-party transactions to be included in its entirety in the universal registration document (URD).

6) A detailed strategy

AFG asks that the company's executives present the company's strategy to the board members so that the key issues can be reviewed and approved by the board, and then described in the report of the board submitted to the general meeting. Such key issues include:

- ▶ the company's medium- and long-term business strategy,
- ▶ the company's environmental and social policy,
- ▶ the risks identification and management company's policy,
- ▶ the financing of the strategy: debt policy, capital increase and dividend distribution policies.

Distribution should be adapted to the company's investment needs and to its long-term growth potential.

AFG is opposed to the practice of making substantial adjustments to the balance sheet's structure without first informing the shareholders.

Thus, AFG recommends that the company's 3-year debt policy, including off-balance sheet commitments, as well as the company's 3-year dividend distribution policy (pay-out ratio), should be specifically addressed in the report of the board (leverage).

7) Board members' participation to general meetings

The shareholders' meeting is the place where the board reports to shareholders for the way it has fulfilled its functions. The attendance of the directors or members of the supervisory board is therefore very highly recommended, especially the one of the committees' chair to present to shareholders the main work carried out during the year and to answer any questions.

▮ B. Voting at the general meeting

1) Voting modalities

The practice of giving to the chair proxies providing him/her with a full discretion to vote as a shareholder proxy ("powers to the president") is certainly a way of achieving a quorum. However, AFG considers it to be a brake on the active participation of shareholders.

AFG is in favour of the generalization of secure and standardized electronic voting for all general meetings.

AFG invites issuers to offer all their shareholders the possibility of remote electronic voting (Votaccess) and asks the players in the securities chain to contribute to this generalization, thus helping to reduce paper mailings.

AFG asks that the players ensure compliance with the deadline for receipt of the shareholder vote mentioned by the issuer in the notice of meeting.

The electronic vote should enable investors to receive systematic and immediate confirmation that their votes have been recorded, particularly through their electronic voting platforms.

AFG wishes shareholders' votes to be kept confidential before the general meeting is held.

2) Submitting resolutions and raising questions at the general meeting

AFG recommends that issuers remind their shareholders of their initiative capacity and the way to exercise their rights: submit resolutions to the general shareholders' meeting and raise oral or written questions.

When the submission to the general meeting of a shareholder resolution is rejected, the board must explain the reasons behind its decision to shareholders.

It should be reminded that shareholders wishing to submit a resolution can regroup to reach the minimum amount of capital required.

Answers to written questions can be given on the company's website. This should not restrain these questions to be addressed verbally by members of the boards during the general meeting.

3) Non-voting preference shares and shares without voting rights attached

In compliance with the law, AFG calls for the rights of shareholders holding non-voting preference shares to be respected (without prejudice to the right to participate to general meetings), based on the amount of capital they own in the company.

AFG is generally not in favour of issuing shares without voting rights.

4) Double and/or multiple voting rights, preferred shares, and other classes of shares

AFG supports the principle “one share, one vote”.

The practice of granting double and/or multiple voting rights can lead to allowing a minority holding of securities to gain control of a company, which may lead to abuses stemming from the dichotomy between the shareholder power and the financial risk, lead to the entrenchment of managers or be assimilated to an anti-takeover measure.

AFG underlines the risk that double and multiple voting rights will be detrimental both at the level of the company and to the attractiveness of investments.

AFG therefore recommends that this practice should be abandoned and invites relevant listed companies to propose to their shareholders a statutory amendment to restore the principle “one share one vote”.

AFG is also against limitations on voting rights, preferred shares, and other special share categories.

To promote a long-term holding, AFG is in favour of the use of loyalty dividends. AFG calls for a fair treatment of all shareholders, both bearer and registered.

5) Voting supervision and presentation of voting results

AFG recommends that issuers put in place a detailed and reliable information on the counting of votes on each resolution.

AFG pays particular importance to the recording of postal and proxy votes cast by all shareholders, particularly by non-resident shareholders.

AFG asks that all votes received within the legal time-frame, as mentioned in the meeting notice, shall be accounted for and not be subject to rejection.

Companies are responsible for ensuring the proper functioning of the general meeting voting committee (*“bureau de l’assemblée générale”*), as recommended by the French securities regulator (AMF).

AFG recommends that companies pay special attention to resolutions that face significant opposition (20% of negative votes of minority shareholders). These topics should be discussed by the board and its works bring to the attention of investors at least before the next general meeting votes.

The publication of the vote results during the general meeting and on the issuer website, should specify:

- ▶ the number of voting forms rejected by the Chair and the corresponding number of votes,
- ▶ the number of votes corresponding to postal and electronic voting forms taken into account,
- ▶ the number of votes cast by shareholders who were physically present or represented at the meeting,
- ▶ the number of “powers to the president” given to the Chair,
- ▶ the number of votes in favour, abstention votes and votes against for each resolution.

C. Special attention to specific resolutions

1) Securities trading

AFG supports the board neutrality principle during public offer periods.

Regarding resolution related to neutrality principle (financial authorisations...), AFG requires that companies confirm that the conferred authorization cannot be used during public offer periods..

1.1 Protective measures – poison-pill defences (anti-takeover measures)

In the interest of minority shareholders, AFG is not in favour of anti-takeover measures.

Particularly, it is not desirable that a general meeting gives authorisation in advance to make use, during a subsequently launched takeover action, of such measures as share buybacks or share warrants grants as established by the Act of March 31, 2006.

Indeed, AFG considers that shareholders should be given the opportunity to vote on a case-by-case basis with appropriate information on resolutions authorising a share buyback or grant of share warrants as established by the Act of March 31, 2006, at general meetings during takeover periods.

AFG is not in favour of the use of anti-takeover measures without a prior approval by a general meeting, especially through protection measures within subsidiaries.

AFG wishes companies to avoid the use of ambiguous language in resolutions.

Particularly, resolutions addressing share buybacks should state explicitly whether share buybacks are excluded during a takeover period.

AFG is in favour of a change in the law so that extraordinary general meetings deciding on the issuance of share warrants are not subject to the quorum and majority voting requirements of ordinary general meetings, but rather to the usual conditions applicable to extraordinary general meetings.

1.2 Capital increases with or without pre-emptive rights

It is desirable that issuers supply ex ante justifications on proposed authorizations for capital increases without pre-emptive rights. It also is necessary to provide the shareholders with ex post information on the amounts of capital used and, when relevant, on the amounts remaining.

(a) Capital increase with pre-emptive rights

- AFG considers as acceptable authorisations of capital increases with pre-emptive rights, which, if they were cumulated, would not represent more than 50% of the capital, unless a higher percentage may be justified by special circumstances formally disclosed.

(b) Capital increase without pre-emptive rights

- AFG recommends that approvals of capital increases without pre-emptive rights and without a binding priority subscription period, if they were cumulated, do not represent more than 10% of a company's share capital.
- Approvals of capital increases without pre-emptive rights and with a priority subscription period of at least 5 days, if they were cumulated, should not represent more than 20% of a company's share capital, unless a higher percentage is justified by special circumstances which are formally explained.

AFG is generally not in favour of authorisations of capital increases through private placement except in specific situations duly justified by the issuer (for example authorisation of capital increases through private placement limited to convertible bonds).

AFG recommends that resolutions on capital increase without pre-emptive rights explicitly mention their usage will be excluded during a takeover period.

2) Asset disposals with significant and/or strategic character

AFG recommends asset disposals having a significant and/or strategic character to be submitted to the prior vote of the shareholders.

3) Approval of the financial statements

To enable shareholders to knowingly adjudicate on the approval of accounts, the annual accounts must be regular, sincere and give a faithful image of the assets, financial situation and results of the company.

The board shall establish formal procedures to ensure an efficient external independent audit of the financial statements of the company. The publication of the external auditor should be done before the annual general meeting. Any caveats on a part of the accounts, specific observation or non-certification by the auditors must be known by the shareholders before the general assembly and must be supported by comprehensive and precise information of the elements, which led auditors to their observations.

4) Related Party Transactions

The boards should develop and make public a formal policy explaining its approach to the monitoring and approval of related party transactions. A director in a situation of conflict of interest on a board agenda subject must not take part in the deliberations nor the vote.

The board should follow a formalized process to evaluate the alignment of the transaction with the company's interests and disclose it.

The audit committee and the auditors should be involved in the qualification of the related party transactions, particularly regarding standard transactions concluded under normal conditions. The AFG wishes to see a change in the regulations in this respect.

The board of directors should appoint an independent expert when the conclusion of a related party transaction is likely to have a very significant impact on the balance sheet or the results of the company and/or the group. This independent expertise requested by the board of directors must be mentioned in the special report of the statutory auditors and should be public.

The report of the statutory auditors on related party transactions should contain particularly a complete description of the services provided; the methods for calculating the financial conditions and their adjustment conditions over time.

In case of a rejection of a resolution on regulated agreements, the board should communicate on the consequences of this vote, especially on the modifications of those agreements.

5) Opposition to bundled resolutions

AFG is opposed to the practice of combining into a single resolution several decisions, even if they are decisions of the same nature, obliging shareholders to approve or reject in a single vote all these decisions.

AFG is strongly opposed to single resolutions proposing the appointment or renewal of appointment of several board members. AFG recommends that each appointment be submitted to a separate vote at the general meeting.

To ensure greater transparency, the most important related-party transactions should be presented in separate shareholder resolutions. Such transparency arrangements should particularly apply to transactions involving executive directors and family holding companies.

II – THE BOARD OF DIRECTORS OR THE SUPERVISORY BOARD

The board is a strategic body; the decisions it makes determine the future of the company and involve the responsibility of its members. Its action must be governed by the principles of transparency, accountability, effectiveness, and availability.

With a view to ensure their independence, asset management managers and their employees should not serve as a member of the board of directors or the supervisory board of any listed company whose shares are held in the portfolios they manage.

Directors should naturally act in compliance with ethical principles. They should also ensure the diffusion of ethical principles applicable to executive directors and employees in the company.

▣ A. Principles

1) Function of the board

The board is to be motivated by a genuine “*affectio societatis*” and be permeated by the company’s culture.

AFG takes the view that, since the board has a responsibility towards all the company’s shareholders, the board should therefore act in the interest and on behalf of all the shareholders, consequently it must remain neutral during a takeover period.

The board’s strategy and action should be consistent with a sustainable development of the company. From this perspective, AFG encourages management companies to pay specific attention to social and environmental factors, encompassing all entities included in the company’s consolidated accounts.

In the extension of the missions conferred by the law to the board, AFG is in favour that the board supervises the implementation and the regular review of an effective risk management policy, including particularly strategic, financial, operational and non-financial (human, environmental, reputational) risks.

The board will have to be involved in the prioritisation of risks as communicated to investors.

2) Accountability and independence

The board’s accountability to all shareholders requires that it exercises an independent judgement and fulfils its duty of supervision in relation to the company management. Each board member even free from conflicts of interest should form its independent judgement only within the company’s corporate interest.

Board members are responsible for keeping themselves informed about the rights and duties associated with their position.

The board of directors or supervisory board must ensure that the information provided to shareholders and the public is of a high standard.

The board of directors or the supervisory board must ensure the quality of the information communicated to shareholders and to public. Regarding the Universal Registration Document (URD), the board must make sure that it allows shareholders, who put in risk their capital, to be able to carry out their responsibilities and duties as owners and estimate the company management, its board and its strategy.

3) Separation of functions

AFG is in favour of the general principle of separation of functions, namely executive and control power, through a separation of the function of chair of the board from that of the chief executive officer, or through a supervisory and management board’s structure. Functions assigned respectively to the chair of the board and the chief executive officer should be described in the documents available at general meetings.

A stable and supportive shareholder base is essential for the development of an effective long-term strategy; the chair of the board must focus on promoting it.

Companies, which, as an exception, decide not to implement such a separation of functions, should explain their decision to their shareholders.

It is recommended that in these companies, where the chair also is Chief Executive Officer (*Président directeur général*) or where the chair is a former CEO a free of conflicts of interests lead director (*Administrateur référent*) should also be appointed.

The articles of association, or the board of directors' internal rules and procedures, should provide for this eventuality and include provisions on a specific framework for board convocation.

The role of the referent director (*Administrateur référent*) should be formalized in the articles of association and include several missions, at least the following:

- ▶ to monitor and to manage conflicts of interest situations for executive directors and others board members. This would imply taking preventive measures to increase directors' awareness of the existence of facts likely to generate conflicts of interest situations. AFG believes that it is preferable to declare potential conflicts before they materialise rather than after they have occurred,
- ▶ to set the board agenda with the chair, adding, if necessary, some additional items,
- ▶ to convene exceptionally the board, if necessary,
- ▶ to ensure compliance with governance rules within the board and the standing committees (work schedule, executive sessions...),
- ▶ to ensure the evaluation of the board,
- ▶ account for his/her work to investors.

B. Strengthening the board's independence and efficiency

The board composition should ensure a balance between powers and skills.

1) Criteria applicable to board members as free from conflicts of interest

AFG recommends that the boards of the SBF 120 companies include at least:

- ▶ 50% of members free from conflicts of interest in non-controlled companies
- ▶ 33% of members free from conflicts of interest in controlled companies.

For the calculation of the above thresholds, directors who represent employees and directors who represent employee shareholders are not accounted for.

The boards of small and medium sized companies must be composed of at least one-third of board members free from conflicts of interest.

To be qualified as being free from conflicts of interest, a director must not be in a situation of a potential conflict of interest. Therefore, he or she must not:

- ▶ be a salaried employee or chief executive officer of this company or of any company of the same group, nor have been in such a position at any time during the past five years;
- ▶ be a salaried employee or chief executive officer of a significant shareholder of this company or of any company of the same group;
- ▶ be a salaried employee or chief executive officer of a significant or frequent commercial, banking, or financial partner of this company or of any company of the same group;
- ▶ have been the auditor of the company during the previous five years;
- ▶ have been a board member of this company for more than 12 years..

The *curriculum vitae* of candidates for the board of directors may be taken into account to justify a vote against a person who has not demonstrated good governance records in its previous positions.

2) Standing Specialised committees

AFG pays particular importance to the existence of specialised committees emanating from the board of directors. The board and the committees must be free to summon and interview company employees.

The board must provide shareholders with all relevant information about the committees and the frequency of their meetings; it must also report on their activities. Terms of reference concerning the functioning of committees and their attributions must be disclosed.

The committees are mere extensions of the board (which has sole authority to take decisions collectively) and are responsible for preparing its work. Boards should take care not to set up too many specialised committees, to avoid confusion and to enable the directors to remain focused.

AFG recommends the formation of three separate committees to serve the board: an audit committee, a nominating committee, and a compensation committee.

2.1 Audit committee

AFG recommends that at least a majority of the audit committee members be free from conflicts of interest, as well as the chair of the audit committee.

Company managers may not be members of the audit committee.

The audit committee is responsible, *inter alia*, for the following:

- ▶ control of accounting financial and extra financial information,
- ▶ risk analysis (mapping, procedures, etc.) including cybersecurity risks, risks relating to intangible assets (brands, reputation...) and patents.
- ▶ oversight of internal control,
- ▶ oversight of statutory audits and assessment of the work of external auditors, selection of auditors (shareholders should be informed by the board of the designation procedures), and check of their independence (particularly if they provide other services) and of the good application of the principles of rotation resulting from European texts.,
- ▶ oversight of capital allocation strategy.

AFG recommends that regular communication be held between the board and staff responsible for internal audit and risk management.

AFG recommends that at least once a year independent members of the audit committee meet external auditors outside the presence of company representatives.

2.2 Nominating committee

The nominating committee must include at least 3 members of the board of directors or supervisory board, and at least half of the committee members must be free from conflicts of interest.

The main responsibility of this committee is to make proposals regarding the search for and appointment of board members and executive directors, contribute to the succession planning and organisation for the main executive directors whether it results from the end of the mandate or a sudden hindrance to perform his duties. The scheme implemented shall be subject to an annual review by the board.

The committee organises the integration of new directors into the board.

It may also participate in the assessment of the board's performance.

The nominating committee should have a skill matrix, summarizing the main skills and experiences deemed necessary by the company, including the process of establishment of the skill matrix.

AFG recommends that issuers ensure a regular increase of the proportion of women in their executive committee, to facilitate their subsequent representation within boards of directors and to contribute to better human resources management.

2.3 Compensation committee

AFG recommends that the chair of the compensation committee and at least a majority of members be free from conflicts of interest. In any case, company managers may not be members of the compensation committee.

The compensation committee should design the executive compensation scheme to prepare board discussions.

To this end he gets from the company managers knowledge of the compensation policy of the executive committee. It also meets the human resources managers to be informed about the compensation policy of the group.

The compensation committee analyses a priori and a posteriori the relevance of criteria set up regarding remunerations.

3) Remuneration of directors for their activity

Board members should be compensated for the work they do. The amount and evolution of this remuneration must be consistent with current standards and practices in the country, and the sector of activity, and be proportionate to the capacity of the company. The allocation between Board members must consider the importance of the assignments carried out by each board member and in particular include their attendance at board meetings and, where applicable, to the specialized committees.

This distribution and its evolution must be detailed in the URD.

Directors should not receive remuneration such as services or remuneration within subsidiaries, regardless of their amounts, so as not to place them in a conflict of interest situation.

4) Compensation of the non-executive chair

Particular attention should be paid to the compensation of the non-executive chair. In any case, precise information regarding the past financial year and the two previous years should be communicated to shareholders.

The board of directors or the supervisory board validates the compensation of the non-executive chair as regard the missions that may have been entrusted to him. He brings this remuneration to the attention of shareholders, regarding the nature of the missions concerned; his remuneration must be reviewed regularly according to his responsibilities.

The compensation of the non-executive chair must not place him in a position of conflicts of interest. AFG is not in favour of paying a variable part the non-executive chair nor of maintaining long-term plans which should at least be prorated.

5) Cross-shareholdings and cross exchanges of directorships

As a matter of principle, AFG is not in favour of cross exchanges of directorships, and cross-shareholdings unless they are the result of strategic alliances and part of an official common business project undertaking.

Apart from this case, cross exchanges of directorships and cross-shareholdings are in contradiction with the principles of transparency and independent decision-making for the company.

Cross-directors and board members representing cross-shareholdings should not sit on specialized committees.

6) Board composition and diversity

AFG recommends that the composition of the board should be diversified in terms of educational background, nationality, gender, etc. This diversity is essential to ensure the proper functioning and effectiveness of the boards, which thus benefit from varied and complementary expertise.

To do this, the company must define the right balance of expertise and skills corresponding to its strategy and its long-term challenges and communicate this to its shareholders.

It is desirable that the composition of the board of directors be accessible to shareholders at any time. Any change in the size of the Board, resulting particularly from the non-renewal of directors or their resignation, must be brought to the attention of the shareholders as soon as they occur.

C. Ensuring appropriate and transparent compensation

1) The board's role with respect to compensation

AFG highlights the responsibility of the board of directors or supervisory board concerning the elaboration and the decision-making processes relating to compensation in compliance with ethical principles.

It must discuss at least once a year the compensation policy and perform its supervisory function to the greatest extent possible.

The compensation committee plays a fundamental role and therefore must not find itself in a situation of conflict of interest.

2) Appropriate compensation

2.1 Aligned with the company's and shareholders' interests

AFG considers that the interests of the company managers must be consistent with those of the company shareholders. The company's compensation policy should strike a balance accommodating the necessity to motivate employees. AFG is in favor of promoting plans for employees to broaden the sharing of company performance to all employees.

This policy must incorporate both financial and non-financial considerations. As a result, it should be consistent with a medium/long term perspective.

AFG reiterates the importance of a transparent and well-managed compensation policy, the absence of which would adversely affect the company's image and reputation. Any excess in this area may be prejudicial to the interests of the shareholders, as well as to those of the company and its managers. The executive directors' compensation must consider social cohesion and contribute to promote *affectio societatis*.

It is important to avoid the effects of outbidding that would result from a compensation policy exclusively based on comparisons with other companies.

Both increases and decreases in the compensation of executive directors must be linked to medium-term and long-term trends in the company's intrinsic worth and the relative performance of its share price.

They must be consistent with the company's average employee compensation, dividends, and earnings.

2.2 Risk-taking

AFG recommends that executive directors and members of the executive committee should personally hold at risk without any hedging mechanism, a significant amount of company shares and that information on their shareholdings shall be provided to shareholders.

Likewise, it seems sensible that executive directors keep a portion of their exercised stock options as company shares (at risk).

3) Transparency – Remuneration policy and ex post remuneration

The board of directors or supervisory board, which decides on the compensation of executive directors, is responsible for the publication and the transparency of the company's compensation policy.

It must communicate to the shareholders on the underlying principles and reasoning that determined this policy, in particular the relationship between compensation, performance, and performance objectives.

AFG calls for full disclosure of the amounts, particularly the fixed compensation for the coming year, and all forms and methods for calculating individual compensation, direct or indirect, immediate or deferred of the executive directors of the company or its subsidiaries, in France or abroad, including stock-options, bonus shares (specifying what will happen in the event of departure from the company), pension plans (specifying whether these are identical for other group managers or specific to the individual), severance pay, special benefits as well as the total compensation paid to the ten highest-paid people performing management functions.

The remuneration policy should not provide for the possibility of exceptional remuneration. Failing this, in the event of the granting of exceptional compensation, its amount should be individualized, with a maximum amount, linked to performance criteria over several years and that the circumstances and reasons leading to the payment of this is specified and justified *ex post* (example: golden hellos, etc.).

The variable part of the executive directors' remuneration should clearly indicate the criteria

on which it is established, describing describe how they were applied during the financial year and whether the executive directors' personal objectives were achieved.

AFG calls for disclosure of proportions to which of each criterion applies, their ceiling and their year-to-year variation over three years. The variations of the various elements of remuneration must be justified.

An ex-post assessment of the achievement of these criteria must be communicated with details of the level of achievement of each criterion.

AFG is not in favour of the use of alternative performance conditions on the criteria applicable to variable compensation.

In the event of exceptional use of the Board's discretionary power in the assessment of performance conditions, circumstances and reasons leading to these decisions should be specified and justified. The consequences of the use of discretionary power on the rate of achievement of each criterion must be communicated to the shareholders, whether in the case of an increase or a decrease in the requirement of the criterion.

AFG would like the tables summarizing the compensation of executive director for the year to provide a comparison with that of the two previous years.

4) Options and performance shares

AFG is in favour of granting options and performance shares provided their allocation is well designed, involves the beneficiaries (executives and employees) in the development of the company and allows the emergence of a true corporate culture with the indispensable *affectio societatis*.

AFG recommends the cancellation of options and performance shares when leaving the company, as well as the absence of any possibility of subsequent modification of the initial conditions for granting options or performance shares.

4.1 Subscription options and share purchase options

AFG recommends that the company provide in its URD, precise data concerning all the performance conditions of the subscription or purchase option plans in progress.

AFG believes that subscription or purchase options should be granted without a discount. This absence of a discount having to be mentioned in the resolution authorising such an attribution.

AFG recommends that the resolution setting the terms for granting options also stipulate that:

- ▶ the allocation of options is subject to performance criteria over a long period: at least 3 years, preferably 5 years,
- ▶ the options are granted on a regular annual basis to avoid any risks of market timing.

Resolutions authorizing the allocation of options to executive directors should be separate from resolutions authorizing the allocation of stock options to employees. It is desirable for the URD to mention the number of beneficiaries of previous subscription or purchase option plans as well as, for future plans when a resolution of authorization is submitted at the general meeting.

Regarding the allocation of options to executive directors, it is good practice for the company to implement an option management scheme under which the interested parties, annually and prior to execution, lay out the programme for stock option exercise.

4.2 Performance shares

AFG recommends that the company annual URD provide shareholders with detailed information on all the performance conditions concerning performance shares in progress.

AFG recommends that resolutions on the allocation of performance shares to executive directors should be separate from resolutions on the allocation of performance share to employees.

The allocation of performance shares should be linked to the achievement of performance criteria over a long period at least 3 years preferably 5 years.

Resolutions to authorise the allocation of performance shares to employees and/or executive directors must include the explicit performance criteria on which the allocation of those shares is based so that shareholders may assess any potential dilutive impact. These criteria may be stated in the resolution

or in the documents provided to shareholders with a view to the shareholders' meeting.

Resolutions providing for the allocation of performance shares to all employees shall be reviewed on a case-by-case basis.

4.3 Common provisions for options and performance shares

The total value of option and performance share plans must not exceed 10% of the company's capital. Where the company provides formal explanations and justifications, or where the company is a small cap, this limit may be higher.

AFG asks that the company's URD discloses, for both past and future plans, the total number of options and performance shares beneficiaries, split between executive directors and employees.

AFG is not in favor of the use of preference shares in option and performance share plans.

AFG recommends that, where there is a provision for release in the case of a change in company control, option and performance share plans should explicitly provide pro rata over time, specific implementation procedures for performance or release conditions.

The option and performance share plans should provide the loss of the plans distributed during the previous financial year, in the event of rejection of the *ex-post* compensation by the general meeting.

4.4 Delegation of shares management by executive directors

To avoid problems arising from dealing for their own account in the company's shares, executive directors must fully delegate the management of their shareholdings. Failing this an equivalent mechanism should be put in place to guarantee the existence of relevant compliance rules.

4.5 Plans with similar effects

AFG considers that the principles mentioned above also apply to plans with similar effects such as phantom shares. In any case companies must provide their shareholders with precise information on phantom shares and equivalents, which must form an integral part of the remuneration policy and the remuneration report.

5) Severance Pay

"No rewards for failure." There cannot be concomitantly an attractive compensation incorporating a risk premium and a large severance payment if the risk actually materializes.

In addition to the performance conditions required by law, AFG requests that the amount of any severance pay of any kind for executive directors should be proportionate to their length of service, their compensation, and to intrinsic value of the company during the tenure of the person concerned.

In any case, AFG recommends that the aggregate compensation payable to an executive director upon his or her departure (termination cost, non-competition payments...), should not exceed an amount corresponding to twice his or her annual compensation, fixed and variable (excluding options and other types of compensation). If the executive director's service was under two years, the amount of severance pay must be proportional to his or her tenure.

As with employees, an executive director who departs of his or her own accord should not receive any termination payment.

The payment of non-competition indemnity should be limited to the case where the person concerned takes up functions outside the group and remains a decision of the board as to his activation.

Contractual benefits or indemnities of any kind must be disclosed in the summary compensation table included in the URD.

6) Supplementary retirement benefits

In the context of defined benefit plans, in which the beneficiary's presence within the company is no longer required by the regulations, the resolutions relating to supplementary pensions must mention compliance with the following principles:

- ▶ rights acquired after a minimum of 3 years of contributions in the company,
- ▶ implementation of transparent performance conditions,
- ▶ strictly progressive: maximum rate of increase in potential rights limited to 3% of the beneficiary's remuneration each year,
- ▶ setting a reference period over several years.

In the event of setting up a new supplementary pension scheme, the advisability of a defined contribution scheme should be studied by the company.

D. Board organisation and responsibility

1) Board ethics and directors' internal rules

AFG is in favour of developing directors' internal rules. This document should be available to shareholders in whole or in part.

This document must state in how the board is organised, notably in relation to the prevention and management of conflicts of interest, as well as give details of the ethical rules its members must comply with (confidentiality required, time to be devoted to his mission by each member of the board, etc.).

The board of directors' internal rules may also require the board's prior agreement before any significant operation or any initiative that diverges from the stated business strategy, (acquisitions or internal restructuring...); it may furthermore indicate cases in which the board's prior agreement is required.

The board must manage the possible conflicts of interests between its members.

In case of any potential conflict of interests on an item on the board agenda, the director facing a situation of conflict of interests must advise the board and not take part to the deliberations, nor the vote.

2) Limitation on number of directorships

Directors and supervisory board members must be able to dedicate themselves fully to their responsibilities.

AFG therefore recommends that:

- ▶ outside directorships for executive directors and for the non-executive chair should be limited to 2,
- ▶ persons with no executive functions should exercise a maximum of 5 directorships.

By directorship we mean here having the position of member of a board of director, member of the supervisory board or permanent representative in listed companies, in France or abroad, whatever would be the legal form of the company.

Being chair of an audit committee, as well as being non-executive chair of a board, will be accounted for as an additional directorship.

This recommendation should equally apply to foreign companies' board memberships.

We recommend directors to inform the board before accepting any other mandate. In the same case, executive directors should ask for the approval of the board of directors beforehand.

3) Evaluation and transparency of the work of the board

AFG promotes that the board regularly examine the roles and responsibilities of its members regarding their functions and obligations.

AFG recommends that the board conduct a formal annual evaluation of its own work either by self-evaluation or by external evaluation. The board must examine its membership, organisation, and operation including issues such as the relevance of agenda items, time spent per item, quality of documents provided, efficiency of committees. It informs shareholders of these assessments and of any measures taken in response to its findings.

AFG recommends that the shareholders be informed in the board report of the number of board meetings, information on the attendance of its members, board organisation and operation, training courses taken as well as the detailed curriculum vitae of current board members and those presented to the vote of shareholders, the list of their responsibilities and directorships and any other useful information.

This report must also include detailed information on the work and conclusions of the various committees.

4) Board meetings

AFG recommends board meetings to be held on a regular enough basis to ensure an appropriate board level of information and an effective work of the board.

Regular board meetings outside the presence of the executive directors should facilitate exchanges.

The number of board and committee meetings, the individual attendance rate specifying whether it is a physical presence or by video-conference/telephone conference should be stated in the URD.

Participation of censors to the board should be exceptional; the company should provide, before the general meeting, formal explanations, and justifications of their participation to shareholders.

5) Resources at board members' disposal

The chair must provide each board member with any information useful to the exercise of his mandate. Items to be provided to members of the board of directors or supervisory board include any research ordered by management (market research, strategic analysis, compensation studies, etc.) or, in any case, their main findings.

The risk mapping (including all the risks identified by the company, particularly cyber-risks) as well as the organizational procedures for crisis management must be transmitted to the board members.

These documents must be published sufficiently in advance of board meetings for members to gather all the information they need to make fully informed decisions.

Board members must be provided upon request with any additional qualitative and quantitative information on the company. They must also be able to interview any individual with information they deem useful for their work. and, if necessary, have recourse to external service providers.

The company chief ethics officer should, at least once a year, report to the board on its activity, the problems encountered within the group and the tools dedicated to fight against corruption, ethics...

In general, persons responsible for internal control, risk management and ethics should be given the opportunity to present on a regular basis all points of concern they identified.

It is desirable for the board of directors to have an autonomous budget, the commitment and control of which is placed under the responsibility of the non-executive chairman or the lead director.

6) Board member training

It is essential that any new director receives on the chair initiative, a training that allows him or her to learn more on the company, he or she will run and, on its products (meetings with the executives of the company, visit of sites, communication of the organization chart...).

The recently appointed director should also be encouraged to get training to improve his expertise on the different aspects of the director's duties.

Similarly, the company must encourage and facilitate the regular training of board members during their mandate, particularly on environmental, social, and digital transformation issues..

7) Board member's share ownership

Without prejudice to national law, each board member should hold a minimum, but more than symbolic number of shares in the company's capital.

8) Term of office – renewing board membership

The term of office for members of the board of directors or supervisory board should not exceed four years so that the shareholders are required to decide with sufficient frequency on their term of office.

AFG is favourable of the boards of directors or supervisors being subject to regular partial renewals, leading to shareholders voting each year on part of the board.

For the past 60 years, AFG has brought together asset management professionals, serving the interests of investment industry participants and economic players.

- It coordinates the industry's thinking about its development
- It defines shared positions which it promotes and defends with the authorities in France and Europe.
- It contributes to the emergence of solutions that are beneficial to all actors in the ecosystem and acts, in the universal interest, to foster the industry's expansion and influence in France, Europe and beyond.

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