AUTORITÉ DES MARCHÉS FINANCIERS

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The AMF publishes its annual report on corporate governance, executive compensation, internal control and risk management

The fourteenth edition of this annual report reviews current regulatory topics – application of the revised AFEP-MEDEF code and the legal 'say on pay' regime, modification of the French and European normative framework, and in-depth and statistical developments on many themes – and examines the transparency of 60 listed companies. The regulator notes continuous improvement by companies, and takes the opportunity to issue new recommendations and present new areas for discussion.

The Autorité des marchés financiers has been conducting an annual review of the transparency of listed companies with respect to corporate governance and executive compensation since the financial security law of 1 August 2003. The quality of the information published by companies has increased significantly over the years, as a result of the recommendations the AMF has formulated and the areas for discussion it has proposed to professional associations and legislators. This constant improvement is reflected in the fourteenth edition of this report, which shows an inversion between good and bad practices, with the former mentioned overwhelmingly this year.

Continued improvement

At the end of the 2017 AGM season, all the companies in the sample examined by the AMF (34 French CAC 40 companies and 26 companies on the SBF 120) showed a ratio of women on board that was above the required 40%. Generally speaking, the companies in the panel comply with the recommendations on director independence and the management of conflicts of interest. All report that they have conducted an assessment of the functioning of the board and almost all report results and areas of improvement, even though information on the effective contribution of each director to the work of the board is lagging behind.

The AMF also notes an overall improvement in the presentation of executive compensation in the information document. Increases in the fixed portion are the subject of detailed explanations. Transparency as regards determination of the annual variable portion is satisfactory on the whole. Lastly, the AMF notes that in cases of departure of the executive, the recommendations of the AFEP-MEDEF code were respected and the ceiling of two years of remuneration was applied.

Room for improvement on certain points

Nevertheless, the AMF believes that there is still some area for improvement. It has therefore formulated four new recommendations for issuers:

- A precise and detailed presentation of the tasks and the activity report for the chairman of the board of directors or supervisory board.

- When calculating variable compensation:
  > Specify, for each quantifiable objective at least, the level of achievement has been achieved;
  > Clearly justify the board's decision when the ratio between the qualitative and the quantifiable part of the objectives observed for the variable compensation calculation deviates significantly from the ratio initially set in favour of the qualitative criteria ;

- The drafting of separate resolutions where these concern different categories of executives and for which the principles and criteria for determining remuneration and/or the scope of the vote expressed by the shareholders differ.

In addition, the AMF is issuing four new areas of discussion for the attention of AFEP and MEDEF with regard to the governance code:

- A more standardised presentation of the composition of the board and committees;

- Reflection on the degree of detail and relevance of the information to be given on business relationships;
- The abstention of members of the board from both participation in board deliberations and from voting in order to deal with any conflicts of interest;
- Supervision of new retirement plans put in place to replace the defined benefit or defined contribution pension plans usually granted to managers, and which are not currently systematically subject to performance conditions.

The AMF updates its consolidated recommendation

The AMF is publishing concomitantly an update of its consolidated recommendation on corporate governance and executive compensation (DOC-2012-02). This document takes into account the recommendations and areas for discussion that were put forward last year and this year. It also takes into account the revision of the AFEP-MEDEF code, dated November 2016, and the provisions of the "Sapin II" law on the shareholders' right to vote on the remuneration of listed company executives.

About the AMF
The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, providing investors with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.

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Corporate governance and executive compensation in companies referring to the AFEP-MEDEF code - Consolidated presentation of the recommendations contained in the AMF annual reports

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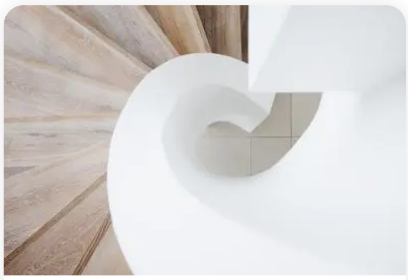

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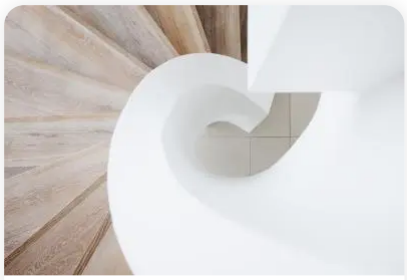

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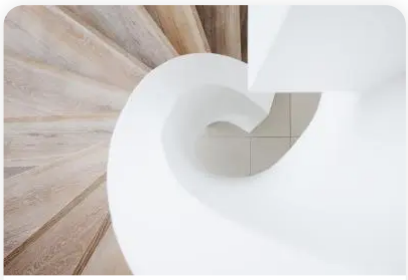

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