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## **Social and environmental responsibility, the focus of the AMF's 2022 report on corporate governance and executive compensation of listed companies**

**Director skills and training, dedicated committee, executive compensation: this year, the AMF is devoting a section of its report to the consideration of social and environmental responsibility by the board of directors.**

***Please note that the French version of this press release was published on 1<sup>st</sup> December 2022.***

In a communication to the European Parliament in 2011, the European Commission defined social and environmental responsibility as “the responsibility of enterprises for their impacts on society”. There is an increasing number of rules governing this approach by companies to take environmental, social, ethical and sustainable development issues into consideration in their activities.

Starting in 2024, the Corporate Sustainability Reporting Directive (CSRD) will significantly strengthen reporting requirements on Environmental, Social and Governance (ESG) issues. Standards will be developed that set out the general information to be provided on sustainability topics (strategy, governance, impact assessment, risks and opportunities), as well as specific standards defining the information to be provided for each E, S and G topic.

Investors and civil society have also become more demanding in their expectations.

In its report on corporate governance and executive compensation of listed companies, the AMF has therefore focused on the extent to which boards and their committees take corporate social and environmental responsibility (CSR) into account based on a sample of 50 listed companies (of which 35 belong to the CAC 40 index).

One of the most visible expressions of this is the attention paid to the CSR skills and training of directors. Among the practices observed, the AMF would like to encourage companies to publish an individualized presentation of directors' skills, to define the skills required according to the type of Board's committee and to be transparent about the extent to which these requirements are met. Another good practice is to provide for regular training on topics relevant to the company or a training programme for newly-appointed directors. The appointment of a specialist CSR lead from among the directors can be a way for the board to work in greater depth on a given CSR topic, such as climate change. When several CSR experts are appointed to the board, it is important to clarify their respective roles.

The AMF found that 82% of the companies in its sample had set up a CSR committee. Although its role is not exactly the same from one company to another, it is generally responsible for reviewing strategy and, frequently, for reviewing non-financial reporting and executive compensation criteria. 73% of CSR committees also deal with climate issues. When the board of directors puts a "say on climate" resolution on the agenda of the general meeting of shareholders, the AMF recommends that the CSR committee, where there is one, should make a contribution prior to the meeting and that the company should report on this contribution. The audit committee is called upon to examine financial risks; however, only 20% of the companies surveyed mention the committee's role in monitoring climate issues in the audit reports. The AMF is encouraging companies to publish information that enables investors to gain a clear understanding of the role played by the audit committee in preparing non-financial information and assessing non-financial risks.

As part of its analysis of compensation disclosures, the AMF also looked at the extent to which CSR is taken into account in executive compensation. It found that non-financial criteria accounted for a growing proportion of the 2022 compensation policy: it represented 26% of the criteria for annual variable compensation and 21% of the criteria for long-term variable compensation in the companies in the sample. CSR performance criteria and sub-criteria are generally described in detail. The AMF stresses that the AFEP-MEDEF Code requires companies to ensure that they are using stringent criteria. The most frequently used criteria includes a climate indicator for reducing greenhouse gas emissions and a gender diversity indicator. The report presents a number of good practices to ensure the reliability of these criteria.

Furthermore, as part of the follow-up of the companies mentioned in its previous report on corporate governance, the AMF made several observations on corporate governance and

executive compensation, particularly with regard to the status of independent directors, the presence of employees in the compensation committee, severance pay, and certain one-off payments. As in previous years, the best practices of certain companies are attributed by name. With regard to the practices deemed to be perfectible, the report names the companies that do not apply a recommendation of the AFEP-MEDEF code, a recommendation of the High Council on Corporate Governance or a recommendation of the AMF, without justifying this deviation or providing sufficiently detailed and appropriate explanations, in accordance with the "comply or explain" principle.

The 2022 edition is also an opportunity to present regulatory developments over the last twelve months in the field of governance and executive compensation. Among those, the document presents, for example, the significant developments on the subject of parity, with the political agreement reached between the Council and the European Parliament on new legislation to promote a more balanced representation of women and men on boards. It also reviews the provisions of the Rixain Law in France which aimed at increasing gender balance in management bodies. The report also looks at the transposition of the second European Directive on shareholders' rights.

The last part of the report is devoted to the information made public by proxy advisors, which institutional investors frequently use to analyse the draft resolutions submitted to shareholders for approval at general meetings. For this section, the AMF interviewed 24 French investors. These investors said they were satisfied with the services provided by proxy advisers, but also voiced a growing need for environmental, social and corporate governance data and related services. They also highlighted a number of areas for improvement in terms of information, such as executive compensation criteria and "say on climate" issues. These suggestions are intended for proxy advisers and listed companies alike. The timeframe for making voting recommendations available remains a major focus of attention.

### ***About the AMF***

*The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website <https://www.amf-france.org>. URL = [https://www.amf-france.org/]*

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