

INDUSTRY SELF REGULATION AND GUIDANCE
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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, professional management companies acting on behalf of third parties represent a significant percentage of market capitalisation. Complying with their professional Code of Ethics, they exercise their fiduciary responsibilities with full independence in particular vis-à-vis security issuers and for the exclusive benefit of their clients.

Knowing that good corporate governance practices may increase the value of their clients' investments, management companies seek to enhance the value of their clients' investments by exercising all their rights and duties as shareholders, in particular by actively participating to 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 impulse 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 now provides that management companies exercise the voting rights attached to shares held by the collective investment funds (CIF) they manage and requires that, should they not exercise such right, they explain their decision. The AMF General Regulation goes further, requiring managers to publish an up-to-date "Voting Policy" stating the conditions under which they intend to exercise the voting rights attached to the shares held by CIFs they manage. These regulations further require management companies to report on the conditions under which they exercised their voting rights.

In 1997, with the aim of providing guidance to AFG members on the exercise of their voting rights, AFG Board of Directors also decided to create a Corporate Governance Committee, chaired since then 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, were updated on several occasions. The present 2010 edition is thus the eighth 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 progressive approach, AFG invites small and medium sized listed companies to make their best efforts to comply with these recommendations. A proportionate approach may apply to a number of provisions, for instance the provisions on the separation of functions as well as, for companies with a board made up of a limited number of directors, the assignment of board committee functions (audit, nominations, compensation) to individual independent directors well qualified in the relevant field.

These recommendations set shareholder voting criteria for resolutions, notably for managers that are AFG members. They are not necessarily intended as a basis for new legislation.

The main objectives of corporate governance are already well known and are widely embraced in many European corporate governance codes. In this context, it would be well worth if work at the European level was completed so that basic corporate governance guidelines were defined in order to encourage best corporate governance practices in every field for all listed companies in the European Economic Area. It is essential that this process is not used to justify any potential undermining of shareholder rights in France.

I – THE GENERAL SHAREHOLDERS’ MEETING

The General Shareholders' Meeting is the prime occasion 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 as well as delegate powers to it. As such it is a decisive factor in a company's corporate governance.

Nevertheless, the General Shareholders' Meeting should not assume decision-making prerogatives or take initiatives that are within the board's jurisdiction, such as proposals for strategic business partnerships or settling conflicts with suppliers or customers, for example.

It has always been the view of AFG that it is particularly important for management companies to develop voting policies which include criteria covering shareholder resolutions. This view was reaffirmed by French law, which now requires the exercise of voting rights attached to the securities held in the CIFs they manage in the exclusive interest of the fund holders of those securities, and also requires justification, should those rights not be exercised.

Information that an issuer may possess in advance of a shareholders' meeting, notably that provided by the transfer agent (“centralisateur”), may not be used to influence or change 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 their company's situation and be in a position to react to this situation, in particular 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. Place, date, and time of the general meeting

The attendance of as many shareholders as possible to General Meetings contributes to the quality of the debate. Consequently the participation of shareholders to General Meetings should be encouraged.

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

For companies that can afford it, holding shareholders' meetings in more than one place may be a way of reaching this objective.

AFG is in any case in favour of the use of electronic means of transmission and video-conferencing facilities in order to facilitate participation to shareholders' meetings, in particular, for shareholders located in distant places. Likewise, it would help if the shareholders' meetings of companies listed in Paris held outside France were webstreamed.

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 documents and information related to the general meeting. We recommend that these documents be available on the websites of the issuer and/or of the Autorité des Marchés Financiers (AMF) at least 21 days before the general meeting.

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

AFG recommends that companies draw up and distribute practical information to shareholders concerning their participation to general meetings.

In order to keep shareholders fully up-to-date, AFG recommends that companies ensure that the latest version of their articles of association is available on their websites at all times.

4. Two reports: a summary report and a full report

AFG supports the publication of two reports, i.e. a summary report and a full report, allowing shareholders easy access to information on the company (in particular on the proposed resolutions).

Companies should encourage the use of the internet in order to facilitate shareholders' access to documents related to general meetings.

The summary report should contain an easy to understand simplified presentation of the financial statements highlighting the important points.

All shareholders, whatever their nationality, must have access to the same quality of information, particularly when the company is listed on more than one market. In addition to the use of the French language, the use of other languages commonly used in the financial sphere, such as the English language, should be encouraged, although not made compulsory for all or part of the documentation prepared for shareholders' meetings in order to facilitate informed participation.

5. Explanation of the proposed resolutions

As a general principle, AFG recommends that each resolution is accompanied by sufficient detailed explanations so that shareholders are able to make an informed decision, in particular by describing the issues at stake.

AFG favours the practice of clearly explaining the reason for and consequences of all proposed resolutions, in particular those relating to board appointments and renewal, as well as those relating to the authorisation of financial operations.

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 the candidacy,

- a detailed *curriculum vitae* containing information on the candidate's current functions, appointments, and mandates, both in France and abroad (distinguishing between those exercised in group companies and those exercised outside the group), and
- the criteria used by the company to determine whether the candidate is free of any conflict of interest (indicating in particular any relationship, between the company where the candidate is principally employed and the company for which he/she is a candidate).

Regarding the specific case of resolutions on nomination of directors representing employee shareholders, shareholders should be clearly informed on their election process, (number of voting rounds, number of votes obtained ...).

Concerning related-party transactions that are poorly detailed in the auditor's special report, AFG recommends that complementary information should be provided in the report of the board to the GMM.

6. Providing the details of company strategy

AFG asks that the company's executives should present any key issues to the board members so that they 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
- its indebtedment and dividend distribution policies
- AFG is opposed to the practice of making substantial adjustments to the balance sheet's structure without first informing the shareholders.
- in this light, AFG recommends that the company's debt policy (leverage/gearing), including off-balance sheet commitments, as well as the company's dividend distribution policy (payout ratio), for the following three years should be specifically addressed in the report of the board,.
- the company's environmental and social policies.
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7. Board members' participation to general meetings

The shareholders' meeting is the place where the board has to answer shareholders for the way it has fulfilled its functions. The attendance of the directors is therefore very highly recommended.

AFG invites management companies to pay particular attention to the report by the chairperson of the board on the organisation of the board's work and on internal control procedures.

B - VOTING AT THE GENERAL MEETING

1. Voting forms

The practice of giving the chairperson full discretion to vote as a shareholder proxy (“pouvoirs au président”) might facilitate meeting quorum requirements. However, AFG feels that such practice might restrain active shareholder participation.

AFG is in favour of a harmonisation and a standardisation of voting forms so that the four voting procedures (physical presence, postal voting, proxy voting, “pouvoirs au président”) are clearly and explicitly presented, particularly regarding the implications of these different voting procedures.

AFG recommends that, in case of calls for proxy, proxies disclose their voting intentions to principals before they receive power to vote.

2. Submitting resolutions and raising questions at the general meeting

AFG recommends that issuers remind their shareholders of their right to submit resolutions to the general shareholders' meeting and to raise oral or written questions, and explain the conditions under which these rights may be exercised. AFG wishes shareholders to exercise this right wisely.

It should be noted that it is possible for shareholders to regroup in order to reach the minimum amount of capital required to submit a resolution.

AFG calls for a regulatory change that would allow answers to written questions to be published on the company's website in order to limit the number of answers to be provided during the general meeting.

3. Preferred shares and shares without voting rights attached

In compliance with the law, AFG calls for the rights of shareholders holding preferred 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, "loyalty premium" dividend shares, preferred shares and other share categories

The practice of double and/or multiple voting rights is with no doubt a way to reward the loyalty of certain shareholders. However, supporting the principle

"one share, one vote," AFG takes the view that such practice may allow the control of a company by minority shareholders and as a consequence might lead to abuses arising from the dichotomy between shareholder power and financial risk. AFG therefore recommends that this practice should be abandoned.

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

5. Record date

AFG welcomes the adoption, following its own recommendation, of a record date system in a decree dated December 11, 2006.

6. Electronic voting

Regarding voting practicalities, AFG is in favour of electronic voting in meetings and calls for the adoption of the most reliable and fast system, that would also ensure the highest level of confidentiality for shareholders.

Likewise, we favour the practice of secure and standardised voting through the Internet. The development of internet voting will facilitate a reduction in the distribution of paper-based voting information.

7. Voting supervision and streamlining

AFG recommends that issuers make available to shareholders or send them upon request detailed information on the procedures for vote counting regarding each resolution.

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

Regarding the organisation of shareholders' meetings, AFG approves the manual written by issuers' representatives ("VadeMecum") that allows voting committee members to perform their role more efficiently.

Furthermore, in order to streamline voting and to provide better control, AFG favours the amendment of existing law on the following two points:

- as proxies are currently valid for one general meeting only, AFG recommends that management companies may be given power to vote for a full year regarding the shares held in the portfolios they manage ; and

- AFG calls for a simplification of legal provisions applying to electronic signatures.

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8. Follow-up after the vote on resolutions

Shareholders should be able to receive confirmation of their vote upon request, especially when the company offers electronic voting facilities.

AFG recommends that, as quickly as possible after the general meeting, companies publish a report informing shareholders, particularly non resident shareholders, of the results of the votes at the general meeting, resolution by resolution, as well as of the number of voters and the vote result percentages. AFG also suggests that this report be available on the company's website within 15 days following the general meeting and be sent upon request to holders of registered shares.

This report should specify, if relevant, the number of voting forms rejected by the Chairperson and the corresponding number of votes, the number of blank votes, the number of votes corresponding to postal voting forms taken into account, and the number of votes cast by shareholders who were physically present or represented at the meeting.

C - SPECIAL ATTENTION TO PARTICULAR RESOLUTIONS

1. 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 of these decisions.

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

In order to ensure greater transparency, the most important related-party transactions should as far as possible be presented in separate shareholder resolutions. Such transparency arrangements should in particular apply to transactions involving executive directors and family holding companies.

2. Share issuances with or without pre-emptive rights

2.1. Share issuances 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.

2.2. Share issuances 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 15% 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 25% of a company's share capital, unless a higher percentage is justified by particular circumstances which are formally explained.

3. Protective measures - poison-pill defences (anti-takeover measures)

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

In particular, it is not desirable that a general meeting give 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.

AFG considers indeed 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.

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

In particular, it is preferable that resolutions addressing share buybacks not just indicate that the buyback may be exercised "at any time." Rather, such resolutions should state explicitly whether or not share buybacks are permitted during a takeover period.

3.3. AFG is in favour of a change in the law so that extraordinary general meetings deciding on the issuance of share warrants as established by the Act of March 31, 2006 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.

II-THE BOARD OF DIRECTORS OR 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.

The investment manager's advisory functions require that his/her activity, and that of his/her employees, be governed by the principle of independence. He/she may therefore not serve as a member of the board of directors or the supervisory board of any company whose shares are held in the portfolios he/she manages.

A - PRINCIPLES

1. The function of the board

AFG takes the view that, since the board is responsible to all the company's shareholders, it should act in the interest and on behalf of all of them and should actually be motivated by common aims *affectio societatis*.

It is recommended that the board's strategy and action be consistent with a sustainable development of the company. From this perspective, AFG encourages management companies to pay special attention to social and environmental factors at the same level as the one applicable to consolidated accounts.

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.

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.

3. Separation of functions

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

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 chairperson also is Chief Executive Officer (Président directeur général) a free of conflicts of interests lead director be appointed, who is in charge of monitoring conflicts of interests. He/she will account for his/her work at the General meeting.

B - STRENGTHENING THE BOARD'S INDEPENDENCE AND EFFICIENCY

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

AFG recommends that at least one-third of the board be composed of 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.

In particular, therefore, he or she must not:

- be a salaried employee or executive director 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 executive director of a significant shareholder of this company or of any company of the same group ;
- be a salaried employee or executive director 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; nor
- 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 considered to justify a vote against a person who has not demonstrated good governance records in its previous positions.

2. Standing 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 staff.

The board must supply shareholders with all relevant information about the committees and the frequency of their meetings; it must also report on their activities.

AFG recommends that terms of reference be drawn up for each committee, describing how they operate and their scope of authority.

The committees are mere extensions of the board (which has sole authority to take group decisions) and are responsible for preparing its work. However, boards should take care not to set up too many specialised committees, so as 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 one-third of the audit committee members, including one director or supervisory board member with financial and accounting expertise, be free from conflicts of interest¹.

Company managers and company employees may not be members of the audit committee.

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

- control of accounting and financial information,
- risk analysis (mapping, procedures, etc.) and oversight of internal control,
- oversight of statutory audits and assessment of the work of external auditors, the selection of auditors and checking of their independence.

¹ Except in the specific case of small and medium-sized companies (see preface).

2-2 Nominating committee

The nominating committee must include at least three members of the board of directors or supervisory board, and at least one third 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 directors, and so must contribute to the succession plan for executive directors. It may also participate to the assessment of the board's performance.

2-3 Compensation committee

AFG recommends that the chairperson of the compensation committee and a majority of its members be free of conflicts of interest. In any case, persons with management responsibilities and company employees may not be members of the compensation committee.

The compensation committee should participate to the design of a scheme encompassing all types of compensations, including fixed and variable pay, options, bonus share grants, severance pay and pensions. In particular, it should examine the compensation of the executive directors and executive committee members, with an ex-post and ex-ante analysis of selected criteria.

3. Directors' fees

Board members should receive directors' fees as compensation for their work. The amount of such fees and any changes thereof must be consistent with the standards and practices prevailing in the country where the company is located, with the business sector of the company, and be proportionate to the company's resources.

The allocation of the directors' fees must take into account the amount of work performed by each board member and his or her attendance record. The details of this breakdown and any changes thereof should be included in the annual report.

4. Compensation of the non-executive chairperson

Particular attention should be paid to the compensation of the non-executive chairperson, especially with respect to his/her variable compensation, where applicable. In any case, precise information regarding the financial year just ended and the two previous years should always be presented in the annual report.

5. Cross-shareholdings and cross-directorships

As a matter of principle, AFG is not in favour of executive directors having cross-management responsibilities and cross-shareholdings, unless they are the result of strategic alliances and part of an official joint business undertaking.

Apart in such circumstances, cross-management responsibilities and cross-shareholdings are in contradiction with the principles of transparency and independent decision-making.

Cross-directors and board members representing cross-shareholdings, if the case arises, should not be members of the compensation committee.

6. Diversity of board members

AFG recommends that the composition of the board should be diversified in terms of educational background, nationality, gender, etc., as such diversity entails a better functioning.

C -ENSURING APPROPRIATE AND TRANSPARENT COMPENSATION

1. The board's role with respect to compensation

AFG wishes to highlight the responsibility of the board of directors or supervisory board with regards to the decision making process relating to compensation and to compliance with ethical principles. It must 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. As a result, its members must not include company's managers or managers of any company of the group and its chairperson must be free of conflicts of interest.

2. Appropriate compensation

2-1 Aligned with 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. This policy must incorporate both financial and non financial considerations.

AFG reiterates the importance of a transparent and well-managed compensation policy, the absence of which would adversely impact 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.

It is better to avoid the effects of bidding wars 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, dividend and earnings.

2-2 Risk-taking

AFG recommends that executive directors should personally hold (at risk) a significant amount of company shares and that information on their shareholdings be provided to shareholders.

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

3. Transparency of compensation

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 inform the shareholders of 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 and all forms and methods of calculations of individual, direct, indirect, or deferred compensation of the executive directors of the company or its subsidiaries in France or abroad (including stock options, bonus shares, pension plans – specifying whether these are identical for other group managers or specific to the individual, severance pay, and any other relevant benefits), as well as the total compensation paid to the ten highest-paid persons exercising management responsibilities.

It should be noted that, regarding the variable portion of executive directors' compensation, it does not mean disclosing the method of calculation, but clearly explaining the criteria used, describing how they were applied during the year under review and if the executive directors' personal objectives were achieved. AFG calls for disclosure of the weighting of each criterion in the

discretionary compensation calculation, as well as their year-to-year variation.

In the case of special compensation, the amount for each executive director should be disclosed. The circumstances and motives leading to such payments should be specified and justified.

AFG recommends that a summary statement of all executive directors' compensation be provided in table shown in a dedicated section of the company's annual report.

This table (see appendix for a template) should summarise all compensation commitments relating to the company's executive directors for the year under review, as well as for the two previous years, broken down into short-, medium- and long-term compensation.

AFG calls for a regulatory change allowing the submission of the executive directors' compensation policy to a vote by shareholders at the general meeting ("say on pay").

4. Stock options and bonus shares

4.1. Share subscription or purchase options

AFG is of the view that stock options should be granted without a price discount. The absence of a price discount should be mentioned in the resolution authorising such an attribution.

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

- that the granting of stock options is subject to meeting performance criteria over a long period,
- that the options will be cancelled when leaving the company
- that it will not be possible to alter ex-post the initial conditions for granting options,
- that the options are granted on a regular annual basis.

AFG recommends that resolutions on the allocation of stock options to executive directors should be separate from resolutions on the allocation of stock options to employees. Regarding the allocation of options to employees, the resolution should state the minimum number of beneficiaries. Regarding the allocation of options to 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. Bonus shares

AFG recommends that the company annual report provide shareholders with detailed information on all the conditions that led to the allocation of bonus shares over the previous three years.

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

The allocation of bonus shares should be linked to the accomplishment of performance criteria over several years.

Resolutions to authorise the allocation of bonus shares to employees and/or 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 ahead of the shareholders' meeting.

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

4.3. Common provisions for options and bonus shares

The total value of stock option and bonus 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.

The company's annual report should specify the total number of stock-option and bonus-share beneficiaries, as well as the number of directors who receive such stock options or bonus shares.

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

4.4. Delegation of shares management by executive directors

In order 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. If such arrangement is not possible, they must implement an equivalent arrangement ensuring the existence of relevant compliance rules.

5. Severance Pay

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

Without prejudice to legal requirements regarding performance, AFG is of the view that any kind of severance payments to an executive director should be proportionate to the individual's length of service and level of compensation, and to the company's intrinsic value during the individual's time of service.

In any case, AFG recommends that the aggregate compensation payable to an executive director upon his or her departure, including severance pay, non-compete payments, etc., should not exceed twice that manager's fixed and variable annual compensation (excluding stock 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 length of service.

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

AFG notes that the Act of August 21, 2007 on Work, employment and purchasing power (loi TEPA) includes AFG recommendation that all contracts relating to remunerations, allocations of compensation, payments, or other advantages that may be due to executive directors at the time they cease their employment or change functions, be presented in separate resolutions.

Contractual benefits or severance pay of any kind must be disclosed in the summary compensation table included in the company annual report.

6. Supplemental retirement benefits

It is recommended that the creation of supplemental retirement benefit schemes respect the following principles:

- Seniority (at least two years with the company)
- Employment with the company at the time of retirement
- Based only on the fixed portion of compensation
- Potential beneficiaries to include at least all managers, whether they are directors or not
- Setting a reference period of several years.

D -BOARD ORGANISATION AND RESPONSIBILITY

1. The board of directors' internal rules and procedures

AFG is in favour of developing the practice of documenting the board of directors' internal rules and procedures. This document must state in particular how the board is organised and give details of the ethical rules its members intend to use as their guidelines.

The document may also require the board's prior agreement before any significant operation or any initiative that diverges from the stated business strategy, such as acquisitions or internal restructuring; it may furthermore indicate general instances in which the board's prior agreement is required.

2. Limitation on number of directorships

Directors and supervisory board members must be in a position to dedicate themselves fully to their responsibilities. AFG recommends in this respect that board memberships with executive management responsibilities outside the group be limited to two. The recommended limit for non-executive directorships is five.

Chairmanship of an audit committee will be accounted for as an additional director mandate.

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

3. Assessment and transparency of board work

AFG recommends that the board regularly examine the roles and responsibilities of its members.

AFG recommends that the board conduct a formal annual assessment of its own performance. The board must examine its membership, organisation and functioning, including issues such as the relevance of agenda items, time spent per item, quality of documents provided, efficiency of committees. It informs shareholders of any measures taken in response to its findings.

AFG recommends that, in its report, the chairperson of the board should inform shareholders of the number of board meetings, directors' attendance records, board organisation and operation, any training received, and, in addition to the detailed curriculum vitae of current board members and those submitted for shareholder approval, the list of their responsibilities and directorships and any ties they may have with the company they will represent or other professional activities.

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

4. Resources at board members' disposal

Managers must supply each board member with information, in whatever format, that may be useful to the performance of his or her duties. 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. 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.

AFG recommends a regular communication between the board and the head of the Company's risk department.

5. Board member training

The company must regularly encourage and facilitate the training of board members.

6. Board member's share ownership

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

7. 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.

AFG is favourable to the partial renewal of memberships for boards of directors and supervisory boards.

APPENDIX 1

<u>Name of executive director</u>	<u>YEAR N</u>	<u>Name of executive director</u>	<u>YEAR N-1</u>	<u>Name of executive director</u>	<u>YEAR N-2</u>
Fixed compensation in year N		Fixed compensation in year N – 1		Fixed compensation in year N – 2	
Variable compensation due in year N		Variable compensation due in year N – 1		Variable compensation due in year N – 2	
Directors' fees paid in year N		Directors' fees paid in year N – 1		Directors' fees paid in year N – 2	
Benefits paid in year N		Benefits paid in year N – 1		Benefits paid in year N – 2	
Exceptional compensation due in year N		Exceptional compensation due in year N – 1		Exceptional compensation due in year N – 2	
TOTAL in year N		TOTAL in year N – 1		TOTAL in year N – 2	
OPTIONS: Number granted in year N		OPTIONS: Number granted in year N – 1		OPTIONS: Number granted in year N – 2	
OPTIONS: Price		OPTIONS: Price		OPTIONS: Price	
OPTIONS: Exercise period		OPTIONS: Exercise period		OPTIONS: Exercise period	
Valuation		Valuation		Valuation	
BONUS SHARES: received in year N		BONUS SHARES: received in year N – 1		BONUS SHARES: received in year N – 2	
BONUS SHARES: Valuation in year N		BONUS SHARES: Valuation in year N – 1		BONUS SHARES: Valuation in year N – 2	

<u>Name of executive director</u>	<u>Content / valuation</u>
Supplementary retirement scheme	
Non-competition clause	



The Association Française de la Gestion Financière (AFG) is the French Asset Management Association. AFG represents the full array of asset management professionals, whether they work individually, under mandate or through investment funds.

Asset management companies, which now number more than 560 in France, manage over €2.5 billion in assets. They give both individual and institutional investors access to the expertise of asset management professionals. Asset management companies adhere to strict rules, notably with respect to certification and controls, and operate under the oversight of the Autorité des Marchés Financiers.

