



Voting policy

Preamble

Exercising voting rights at shareholder meetings is an essential part of managing an equity investment, both financially and extra-financially.

To fulfil its role as a responsible shareholder, the Banque de France intends to exercise its voting rights in accordance with a policy that promotes better recognition of environmental, social and governance (ESG) issues by the companies in which it invests. It therefore takes a long-term view of its investments, in line with its Responsible Investment Charter.

The voting policy is part of a long-term shareholder approach that takes account of the financial and extra-financial challenges faced by investee companies.

This approach is one of the three pillars of the Banque de France's responsible investment strategy, alongside (i) aligning its investments with France's climate commitments – i.e. achieving carbon neutrality by 2050 – and (ii) integrating ESG criteria into its asset management.

Voting at shareholder meetings and engagement are key priorities of the Banque de France's responsible investment policy.

The Banque de France uses its voting rights as a lever for encouraging issuers to improve their practices on ESG issues over the long term.

Its voting policy is built on the following principles, broken down according to the types of resolutions proposed to the shareholders.

- Approval of financial statements and management

Integrity of management and financial and extra-financial information.

- Profit distribution, management of own funds and capital transactions:

A distribution policy geared towards long-term investment.

- Board of directors or supervisory board

Competence and independence of the board, diversity and separation of powers

- Executive remuneration and employee share ownership

Transparent, consistent and fair remuneration

- Amendments of company articles and shareholder rights

Respect for shareholder rights

- External resolutions

Improvement of environmental, social and governance practices

Situations and resolutions not described in this document shall be dealt with in line with the spirit of the principles defined above by the Banque de France.

The Banque de France intends to apply this voting policy to all companies in which it invests.¹ The policy has been implemented since 2020 for all companies in which the Banque de France is a direct shareholder. In the event that the Banque de France invests in dedicated funds or via delegated management, it ensures that asset managers modify their practices to vote in accordance with the principles defined herein.

Given its role as a supervisor and guarantor of financial stability, the Banque de France refrains from directly owning equity in the companies that it supervises – banks or insurance undertakings – to avoid any risk of conflict of interest.

The principles defined in the voting policy shall be applied pragmatically, taking account of the specific characteristics of each company, notably its history, capital structure, environment, sector and country of establishment.

The Banque de France may revise its voting policy to take account of the latest regulatory developments, changes in governance practices in France and around the world, and dialogue with investors.

¹ Excluding securities held by open-ended equity funds (5% of total investments), where there is no management mandate in place.

1. Approval of financial statements and management

Integrity of management and financial and extra-financial information

1.1. Approval of accounts and annual reports

The financial information provided to investors must be made available within the legal deadlines. It must be accurate, comprehensive and consistent. The parent company and consolidated financial statements must be certified without reservation by the statutory auditors.

In line with European Directive 2022/2464 CSRD, the Banque de France expects investee companies to publish an assessment of the environmental and social impact of their activities. It is particularly sensitive to the quality of information published on carbon emissions.

The Banque de France expects companies to publish information on the extra-financial impact of their activities, in line with the recommendations of the TCFD.

In addition, it expects companies operating in sectors with a major impact on the environment and energy transition (energy, transport, building and construction, agriculture, food and forestry products) to describe their policy regarding climate strategy.

The Banque de France is also opposed to any new fossil fuel extraction projects.

1.2. Discharge

The Banque de France does not support the practice of discharge, except in countries where it is a legal requirement. In such countries, the Banque de France reserves the right, as a shareholder, not to support financial and extra-financial behaviour that it considers unacceptable.

1.3. Regulated agreements

A regulated agreement is an agreement between a company and a member of that company's management that requires the prior approval of a competent body, as opposed to free or prohibited agreements. All regulated agreements, whether new or previously approved, must be included in the statutory auditors' special report. All characteristics of these agreements must be disclosed to shareholders.

1.4. Statutory auditors

To ensure independent supervision of the financial statements, statutory auditors must carry out their work independently and avoid any potential conflicts of interest.

Therefore, an auditor should not be reappointed for a new term if they have served with the same company for more than ten years (or 24 years in the case of a joint mandate). For the same reason, auditors' fees, other than those received for statutory auditing assignments, must not be such as to compromise their independence.

The replacement of an auditor who has issued reservations or observations on the accounts cannot be supported unless there is relevant justification.

2. Profit distribution, management of own funds and capital transactions

A distribution policy geared towards long-term investment

2.1. Distribution policy

The distribution policy proposed to shareholders must be in line with the company's long-term strategy and prospects.

The company's distribution policy must prioritise long-term investment.

Consequently, the distribution of dividends must not jeopardise the sustainability of a company and must be covered by its profits. Moreover, it must not be decided in the interest of a particular shareholder. As a long-term shareholder, the Banque de France agrees not to receive dividends in deficit years and welcomes increased dividends if they reward the loyalty of long-term shareholders.

2.2. Capital transactions

Share buyback programmes must remain exceptional and must not be given priority over investment projects. They are not desirable when the level of debt is already high, as the company must ensure that its project is sustainable.

The Banque de France is in favour of respecting shareholders' preferential subscription rights in the event of capital increases, in order to reduce the dilutive effects of the operation, particularly for minority shareholders.

Mergers, acquisitions, demergers and other restructuring projects are analysed on a case-by-case basis to assess their long-term strategic value, financial conditions and ESG impact.

Outside of public offering periods, the Banque de France is opposed to any anti-takeover measures, as these can disrupt the normal functioning of the market and allow executives to remain in office to the detriment of shareholders' freedom of choice. During a public offering period, a shareholder meeting must be held to allow for a case-by-case analysis, taking into account the company's long-term strategic interest, financial conditions and ESG implications.

3. Board of directors or supervisory board

Competence and independence of the board, diversity and separation of powers

3.1. Composition of the board and diversity

The board is a strategic body responsible for the sound development and sustainability of a company. Its composition should bring together a wide range of skills and profiles.

The Banque de France pays particular attention to the board's diversity, to ensure the breadth of profiles contributes to the quality of the debates. This diversity must be reflected in the representation of the different categories of shareholders and employees. Both genders must be represented in a balanced manner, with a minimum percentage of 40% required for each. Depending on the degree of internationalisation of the company's activities, it is recommended that the board include members of foreign nationality. The skills represented on the board must be diverse.

A major expectation of the voting policy is that boards show diversity and gender balance, with a minimum representation of 40% for each gender.

Furthermore, the presence of members who are free of interests is essential. They should make up at least half of the board in companies whose capital is not controlled and at least one-third in companies whose capital is controlled. Employees are not taken into account in calculating the board's independence ratio. Due to their particular position, they bring a specific perspective that contributes positively to the board's diversity and discussions.

Board members must have the time necessary to fulfil their role with all due diligence. Consequently, the number of non-executive directorships held by each board member must not exceed five in listed or large companies, and one outside their group for executives.

Board members are expected to attend meetings. Thus, a renewal cannot be approved if past attendance rate is less than or equal to 75%, unless there is specific justification.

The Banque de France also recommends that the board create a committee dedicated to social and environmental issues, in addition to the usual committees (audit committee, appointments committee and remuneration committee), in order to inform its decisions on these matters.

In addition to the usual committees (audit, remuneration, appointments), it is recommended that boards create a committee for social and environmental issues.

3.2. Reappointment of board members who are executives

To prevent conflicts of interest, the Banque de France favours the separation of powers between long-term strategic development and operational execution. It therefore prefers a structure with a supervisory board and an executive board to one with a board of directors alone.

The Banque de France is not in favour of reappointing a board chair who is also the chief executive officer. However, it may issue a positive recommendation if the company has put in place genuine counterbalancing powers, such as an independent lead director. In addition, the specific case of a chair and chief executive officer who is also a founder is taken into account.

4. Executive remuneration and employee share ownership

Transparent, consistent and fair remuneration

4.1. Executive remuneration

Executive remuneration is an important issue for shareholders when voting at shareholder meetings. The Banque de France considers it to be essential for social cohesion within the company and, more broadly, within society as a whole. To assess the fairness and equity of an executive's remuneration, shareholders must take the following factors into account: transparency, structure, alignment with long-term performance and amounts. Their analysis must also take account of any changes in both amounts and practices.

Transparency

The remuneration policy must be transparent so that shareholders can understand how it was established and the amounts involved. The various components of direct and indirect remuneration must therefore be disclosed, along with all terms and conditions that led to the amounts being set. To this end, the weightings and targets – or, at the very least, the achievement rates – for the various criteria used by the company must be specified. This information must be provided individually for each beneficiary.

Structure

The structure of an executive's remuneration must be balanced and linked to the company's results over a long-term horizon. The variable portion of remuneration must not exceed 400% of the fixed portion. It must be based primarily on the company's long-term performance, which must be assessed over a minimum of three years.

Alignment with performance

Variable remuneration for executives must be transparent, predetermined and measurable. The criteria used must be binding. The Banque de France also expects criteria measuring extra-financial performance to be used. To do this, the investee company must rely on key performance indicators that are part of its sustainable development strategy.

Executives' variable remuneration must incorporate criteria measuring the company's extra-financial performance.

Option and free share allocation plans must comply with the same transparency and requirements rules as those described above. Separate resolutions according to the type of beneficiary must be proposed to shareholders. In the case of a single resolution, the ceiling for executives must be specified. These remuneration tools combined must not exceed 5% of capital.

Amounts

Introducing a cap on executive remuneration contributes to social cohesion within the company. The fixed portion of remuneration must not deviate significantly from the median observed for comparable companies.

In most cases, defined-benefit “supplementary” pension schemes represent a very high cost for the company and are therefore not accepted.

Severance payments are not recommended for executive directors as they are revocable *ad nutum*. However, they may be accepted in the event of forced departure and after analysis of the situation of the company and the executive. They must not exceed two years' remuneration and cannot be paid in the event of retirement.

4.2 Remuneration of non-executive members

The remuneration of non-executive board members must be in line with practices observed in companies of comparable size in the country concerned. It must not be variable, although an exception may be considered for small companies wishing to attract independent and competent individuals to their board despite limited resources. Remuneration must be linked to attendance at board meetings.

4.3. Employee share ownership

The Banque de France is in favour of employee share ownership. This mechanism is a tool for fostering social cohesion, sharing profits and involving employees in corporate governance.

Employee share ownership is encouraged.

5. Amendments of company articles and shareholder rights

Respect for shareholder rights

Public offerings by listed companies must respect all shareholder rights. The shareholder meeting must have ultimate authority: its decisions must be implemented.

The Banque de France pays particular attention to resolutions amending company articles: these are examined on a case-by-case basis, particularly with regard to shareholder rights.

In this context, mechanisms granting certain rights to a specific category of shareholders are not considered legitimate as they violate the principle of equality. Therefore, the Banque de France does not support preference shares or the allocation of double voting rights. Companies are therefore advised to consider other mechanisms for retaining long-term shareholders, such as increased dividends for long-term holdings or loyalty shares.

The Banque de France recommends voting against a resolution if it combines several decisions. In particular, the Banque de France recommends voting against bundled resolutions concerning proposals for the appointment of board members or the presentation of regulated agreements.

Amendments of company articles to authorise head office transfers should be considered on a case-by-case basis, taking account of the issue of tax and legal havens, shareholder rights and governance practices.

6. External resolutions

Consideration of environmental, social and governance issues

External resolutions submitted by shareholders often relate to ESG issues, particularly climate issues. They therefore provide an opportunity for the Banque de France to promote its view on these themes. The Banque de France will therefore support external resolutions that encourage improved practices and transparency on environmental, social and governance issues. With regard to climate change in particular, the Banque de France will support resolutions containing the following requests:

- definition of quantitative CO₂ emission reduction targets for the company's activities or products;
- reduction of the company's carbon intensity;
- information on climate-related risks (regulatory, financial or physical risks), their identification and mitigation.

External resolutions can help to improve companies' consideration of energy transition and environmental issues.
