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**Corporate Governance**

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I would like to speak here as both

- Listed company Chairman Executive Officer
- and former Chairman of AFEP / MEDEF working-group which was responsible for pointing out Corporate Governance progress in France, consequently to the incidents which occurred to large American companies as ENRON and WORLDCOM.

In France, commercial law has provided for a long time a large set of rules about corporate governance. For example, CEO and directors responsibilities on the role or general meeting for the authorisation of stock options have been defined since than thirty years.

1. Significant improvements in rules and their implementation in France :

From a global point a view, issuers have made significant improvements in three areas, transparency, strict organization of work inside the board and appraisal of the management. Legal provisions have permitted some improvements (transparency of compensation policy, dual statutory auditors rule, independence of auditors), but improvements are mainly due to working-groups composed of French managers (VIENOT 1995, 1999, BOUTON 2002). Those are for instance:

- Setting up of internal rules defining Board of Directors' operating procedures and especially the Board's role in strategic transactions,
- Setting up of Committees (Audit, Selection and Compensation Committees in 100% of CAC 40 listed companies),
- Nomination of independent Directors (composing between 40% and 50% of the CAC 40 listed companies boards),
- Detailed report on the activity of Board of Directors and of the Committees in the annual report (100% of annual reports of CAC 40 listed companies).

Conclusion :

- The codes method works, because the rules are flexible and efficient.

Each investor can assess and arbitrate between rules-abiding companies and the others.

- It works because the code is made by the issuers themselves, so each company acknowledges rules as a result not of a theoretical approach but of the experience.
- Corporate Governance is now a General Meetings' global issue. Shareholders have an exhaustive information and can ask questions to the management.

2. What in the future, what trends ?

A) - Pay particular attention to the implementation of these rules

- The progress in procedures is undeniable. But the "box-ticking mentality" shall be struggled.

A 60 % independent Directors Board having 15 meetings of 5 hours each per year is not the point.

ENRON was well appraised on Corporate Governance matter.

- The point is to develop evaluations, leading to a real sudden awareness.

Appraisals are developing, for instance in all Boards I take part.

In the same way, the meeting of the "external" Directors to assess the executives begins setting up.

The only field of evaluation that has not yet been explored in France, is the individual evaluation of each Director.

By the time of 2 years, these assessments will produce great effects on Board's functioning.

B) - Is European on international convergence a direction to go ?

Three points may be focused on :

- Corporate law is not harmonized and has a significant effect on practices,
- National codes tend to a convergence of practices,
- The market is an arbitrator.

Common principles definition is now possible and to be wished for, provided that companies organization freedom allowed by corporate law is maintained. It is important that national legislation allows companies to choose among alternative board structures (e.g. the one-tier structure, with a choice between an executive Chairman and a non executive Chairman and a CEO, or the two-tier board structure).

I am pleased OECD principles have the same approach.

Which principles ?

Here, I would like to refer to a work prepared by an association of European issuers, named EALIC (European Association for Listed Companies).

- 1°) - The organization of the Board's work, and likewise its membership, must be suited to the shareholder make-up, to the size and nature of each firm's business, and to the particular circumstances facing it. Each Board is the best judge of this, and its foremost responsibility is to adopt the organizational and operational structure enabling it to carry out its mission in the best possible manner.

There should be a well balanced presence on the Board of both executive and non-executive Directors.

- 2°) - Depending on the size and other specifics of the company, the Board shall form specialized Committees with sufficient expertise. The number and structure of the committees are determined by each board but it is recommended that the following subjects : review of accounts, internal audit, compensation and stock

options policies and appointments of directors and corporate officers, be handled by a specialized committee.

- 3°) - The definition of principles guiding independent Director's definition.
- 4°) - Listed corporations' annual reports should include information to the shareholders relating to the policy for the determination of executive and non executive Directors' compensation. It should also include information relating to the compensation received by Directors on an individual basis.
- 5°) - Listed companies should clearly indicate the corporate governance code they apply.

Listed companies should report in their annual reports, on the implementation of the recommendations of their national code. This includes the explanation of possible deviations from recommendations of their code.

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The European commission is preparing propositions on all these subjects. That is a good opportunity to collectively progress in Europe. But it does not mean uniform regulation. We need recommendations and common principles, not detailed rules.

So I would like to tell you my concern when I see some consultation papers recently issued by the European Commission (role of committees, role of independent directors, directors compensation). When I read these papers, I have the feeling European Commission has learn't the lesson of OECD principles !

I know how it is difficult for an institution to resist from bringing a lot of detailed rules. But when I see the result reached by OECD, I think improving corporate governance by the adoption of common principles at the European Commission level would be very helpful and possible.