Minimum Vesting Periods for Long-term Incentive Plans (France)

Background and Overview

Many investors consider that a three-year vesting period is a minimum to qualify an equity-based compensation plan as long-term oriented. From a French perspective, the recommendations on corporate governance annually issued by the AFG (the French asset management association) have required a three-year vesting period for a number of years.

In parallel, the French *Macron* Act adopted in August 2015 amended the previous legal requirements for performance shares issued by French companies. Previously, a minimum vesting period of two years was legally required together with a minimum holding period of two additional years, meaning that under the previous system, the combined vesting and holding periods could not be less than four years. The new Act does not require this combination of vesting and holding periods for performance shares in case of a two year vesting period. A minimum holding period of one year is still legally required when the vesting period is only one year.

The two years (or one year) now set as the minimum legal vesting period under French law is not considered by ISS or by many investors as sufficient for long-term orientation, and is no longer counter-balanced by the previous legal requirement for an additional two year holding period. ISS had previously taken this market-specificity for France into account under ISS European policy, but, with the change in law, this is considered no longer appropriate and we now propose to align our approach for France with that taken by ISS policy for other European markets, in reflecting the view that vesting periods for long-term incentive plans should be a minimum of three years.

Key Changes Under Consideration

ISS proposes the alignment of the French market with all other European markets concerning the application of the ISS policy on vesting periods for long-term incentive plans under ISS European policy. The minimum vesting period attached to long-term incentive plans set out in the ISS European policy on Equity-based Compensation would therefore apply to the assessment of all equity-based incentive plans proposed by French companies from 2016, i.e.

- The plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant;

Intent and Impact

With the change in French law in this area, and taking investor views into account, it is no longer considered relevant for ISS to take a different approach to assessing minimum vesting periods in France compared to that taken in other European markets. The intent is therefore to now align our approach for France with that taken under ISS European policy for other European markets. This reflects widely-held investor views, in France and globally, that vesting periods for long-term incentive plans should be a minimum of three years. ISS also notes a progressive evolution in this direction in the French market already, particularly at a number of CAC40 Index companies.

If the proposal to align the minimum vesting period criteria with ISS European policy is adopted, a fairly significant impact may be expected in terms of ISS vote recommendations from the proposed policy change. Less than 20 percent of the authorities to set-up long-term incentive plans proposed to shareholders' vote between January and June 2015 by SBF120 Index companies complied with such three-year minimum vesting period requirements, therefore if more French companies do not move to adopting 3 year vesting periods in future, more voting recommendations against equity plan proposals can be anticipated.

Request for Comment

1. Do you consider that the proposed change to align the minimum vesting period for long-term incentive plans in France with that considered in other major European markets is justified? If no, please explain.
2. Do you consider that an additional holding period requirement could be taken to compensate for a shorter vesting period than is considered long-term? If so, please explain.
3. If wished, please also provide comments on the potential impact on future ISS voting recommendations, if companies do not adopt 3 year minimum vesting periods in future plans proposed to shareholders.