PRESS RELEASE

THE CNMV APPROVES THE REFORM OF THE GOOD GOVERNANCE CODE FOR LISTED COMPANIES

26 June 2020

- The four axes of the reform are:
    - promoting the presence of women in boards of directors
    - greater importance of non-financial information and sustainability
    - more attention to reputational risk and, in general, non-financial risks
    - Clarification of aspects related to the remuneration of Board members

The CNMV has approved the planned partial review of the Good governance code for listed companies.

The review updates and adapts various recommendations of the Code to various intervening legal amendments approved since its publication and clarifies the scope of others that had raised certain doubts. Likewise, it entails relevant developments in areas such as gender diversity on boards of directors, non-financial information and risks, attention to environmental, social and corporate governance matters, and remunerations.

Five years after its approval, the reform, which has been completed following a broad public consultation process, is intended to maintain the Spanish Good governance code, and therefore, the corporate governance of Spanish companies aligned with the highest international standards.

During the consultation phase, more than 40 papers were received from firms and stakeholders, which have been taken into consideration to determine the final scope of the amendments made.

In the final text, the wording of 20 of the 64 recommendations comprising the Code has been reviewed, with varying degrees of intensity. Thus, recommendations 2, 4, 6, 7, 8, 14, 15, 22, 24, 37, 39, 41, 42, 45, 53, 54, 55, 59, 62 and 64 have been subject to amendment,

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which has entailed reviewing the wording of principles 2, 4, 10, 19, 20 and 24.

Most important amendments

Recommendation 4. General communication policy.

One of the new features is that companies must have a general policy for communicating economic, financial and corporate information through the channels that it considers appropriate (media, social networks or other channels), which will help to maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

With the inclusion of this recommendation, the Code is the first text of this type containing this aspect.

Recommendation 7. Online attendance and voting

The situation caused by COVID-19, together with the trend in favour of long-term involvement of shareholders, has made it advisable to amend Recommendation 7 of the Code, recommending firms to have systems in place enabling shareholders to exercise their voting right using telematic means, either directly or through a proxy, and that at least large-cap companies should have mechanisms in place to enable online attendance at and participation in the board meeting, insofar as this is proportionate. To date, only the broadcasting of general shareholders' meeting online had been recommended.

Recommendations 14 and 15. Gender diversity.

Recommendation 15 states that before the end of 2022, boards of directors should have at least 40% of female board members. Up to 2022, this percentage could not be under 30%.

Recommendation 14 considers that companies should promote an increase in the number of women senior managers, given the importance of this for reinforcing gender diversity in boards of directors in the long term.

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Recommendations 22 and 24. Circumstances of a board director that may harm the company's reputation and transparency with regard to the removal.

This Recommendation refers to the case where situations affecting a board director may harm the company's credibility and reputation. Various aspects are amended to enable the board to analyse the situation earlier, and where appropriate, to adopt measures, without waiting for the courts to take formal decisions (such as an order of indictment or initiating trial proceedings).

Also reinforced are transparency criteria with regard to the removal of directors due to resignation or board resolution, through both the annual corporate governance report and at the time of removal.

Recommendation 37. Executive Committee.

It is recommended that the executive committee have a minimum of two non-executive directors, at least one of which should be independent. To date, the recommendation was that the structure replicate that of the board of directors.

Recommendations 39, 41, 42 and 45. Non-financial information and risks.

Technical adjustments have been made to the wording to include the supervision of information and risk management and control systems, of both a financial and non-financial nature, or on issues such as whistleblowing channels that can be used by employees or other stakeholders.

Recommendations 53, 54 and 55. Sustainability

Some technical adjustments have been made and the term corporate social responsibility has been replaced to a broader extent by that currently used for sustainability in relation to environmental, social and corporate governance (ESG) matters.

Recommendations 59, 62 and 64. Board members' remuneration

The content and scope of these recommendations relating to board members' remuneration is clarified.

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A point which should be emphasised is that it is clarified that variable remuneration must only be paid when the fulfilment of the performance conditions or those of any other type established are sufficiently verified. Companies shall provide information on the verification criteria applied in their annual remuneration reports. Furthermore, companies are advised to consider the incorporation of "malus" clauses in respect of variable remuneration (significant deferral of the receipt of part of the remuneration).

Recommendation 62 was one of the recommendations that raised most doubts. It clarifies the scope of the rule according to which the director must be the holder of shares, options or financial instruments delivered as remuneration during a minimum period of three years.

Finally, Recommendation 64 indicates that the obligation of the sum of termination or contractual termination payments not exceeding the remuneration for two years includes, among others, the amounts deriving from long-term post-employment benefits and post-contractual non-competition covenants.