THOUGHTS ON CORPORATE GOVERNANCE IN THE US

FIR working paper

Considerations regarding the divergences between EU and US governance rules and potential avenues for engagement on good-governance practices with US companies.

FIR FORUM POUR L'INVESTISSEMENT RESPONSABLE

INTRODUCTION

For this first iteration of the project in 2025-2026, the working group targeted a selected set of priority topics that revealed the clearest divergences between EU and US good-governance practices: board of directors composition and functioning, CEO/Chairman positions split and role of executives as members of the board of directors and relationship with auditors.

The project aims to identify practical pathways for engagement with US companies on good-governance practices, informed by the EU's extensive experience in shaping effective governance models. The working group considers constructive engagement essential to promoting best practices that reinforce durable growth and long-term resilience among US corporates.

For each topic set, the document reminds what are the main differences between EU and US standards and practices and proposes different options for engagement with US companies based on a detailed rationale.

The analysis conducted could support investors in encouraging companies to consider shareholders' ESG concerns, thereby facilitating rather than hindering expression of these concerns.

Institutional investors should stay on alert to be able to take part in engagement initiatives, including active participation at the annual general meetings in the US, with some of the pathways recently rendered less accessible (for example, shareholder proposals) and others requiring strong reactivity (for instance, floor proposals).

In any case, and at the discretion of each investor, there remains the option to express disapproval of the excessive omission of external proposals when electing governance committee chair. It is part of the chair's duty to ensure that company owners retain the ability to voice their position on the company's governance as a legitimate course of action. With the support of willing corporate management open to suggestions from shareholders, including European ones, this will continue to be a feature of well-functioning public financial markets, whose prosperity and development have always relied on transparency and the exchange of views.

DOCUMENT STRUCTURE

I. BOARD OF DIRECTORS' COMPOSITION AND FUNCTIONING

A. DIRECTORS' TENURE

What's different between EU and US practices and standards (rule- & code-driven):

	Europe / France (EU PIEs[1])	United States
Directors' Election / Re-election	Many governance codes consider board tenure exceeding 12 years to compromise independence (e.g., AFEP-MEDEF[2]); the AMF cautions against "explaining away" the 12-year threshold[3].	In the United States governance practices impose few hard term limits, instead relying on performance evaluations and sometimes mandatory retirement ages. Only ~9% of S&P 500 companies have term limits, and average independent director tenure is approximately **7.8 years[4]**.

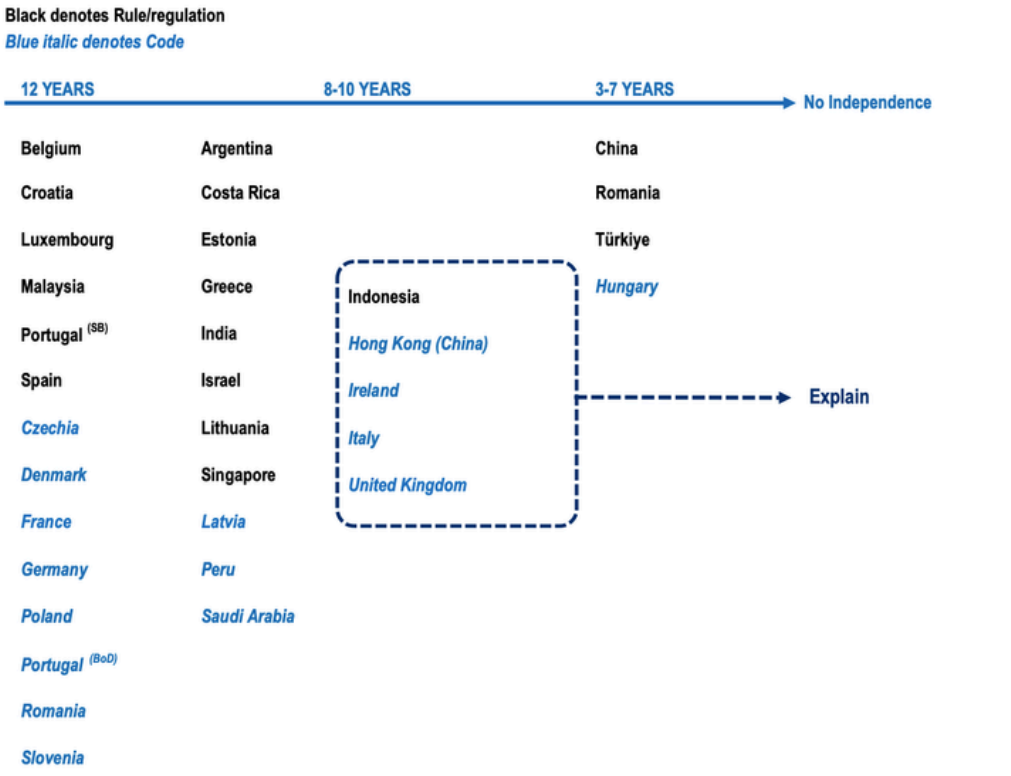
OECD data (2025 report[5]):

A growing majority of jurisdictions (63%, up from 51% in 2014) impose a maximum tenure for independent directors. These limits typically range from 3 to 12 years, with 12 years most prevalent, followed by 9 years.

Of the 52 Factbook jurisdictions, just over half require or recommend that directors lose independent status at the end of the prescribed period, while a further 10% require companies to explain how independence is maintained.

[1] Public Interest Entities
[2] The Afep-Medef Code in France governs corporate governance in all its aspects
[3] AMF 2012 Annual Report on Corporate Governance and Executive Compensation
[4] Spencer Stuart Public Company Series Board Structure and Composition
[5] 2025 OECD report

Definition of independant directors : Maximum tenure



Note: While black denotes law, regulations or listing rules, blue italic denotes codes. Portugal's BoD and SB denote board of directors and supervisory board. See Table 4.7 for data.

Why do practices differ?

Currently, European frameworks generally encode independence time-outs (most commonly 12 years), whereas the U.S. approach relies on board judgment and investor scrutiny rather than prescriptive tenure limits.

Where is the middle ground? Working group suggestions to guide company engagement on the point of directors' tenure and independence status:

NB: Here, we are talking about directors who can be considered as independent based on all other criteria except for tenure.

Proposal 1: A 15-year tenure maximum threshold for individual board members may be considered good practice, based on S&P 500 practices and feasibility for U.S. companies (see Rationale below); however, the accepted in several European countries 12-year threshold remains best practice that might also be suggested as part of the engagement.

Proposal 2: A 12-year threshold may be applied to average board tenure. Once this threshold is exceeded—implying that several directors have served more than 12 or even 15 years—engagement might be initiated:

- with company representatives (e.g., Investor Relations, Head of Sustainability, General Counsel) regarding directors with tenure exceeding 15 years; and / or
- with the chair of the nomination committee.

At the discretion of each investor, the two suggestions can be applied separately or together to track individual board members' tenure as well as the overall average tenure of the board.

Rationale to the working group suggestions presented above:

Looking at the S&P 500 statistics regarding tenure, we notice that board tenure has declined over the past decade, with average tenure at 7.8 years in 2024 (unchanged since 2022, down from 8.4 in 2014) and median tenure at 6 years (from 8.1 in 2014)[6].

AVERAGE TENURE OF INDEPENDENT DIRECTORS

	2025	2024	2020	2015
5 years or fewer	45%	45%	46%	n/a
6–10 years	29%	29%	25%	n/a
11–15 years	14%	14%	16%	n/a
16 or more years	12%	12%	13%	n/a

A supermajority (70%) of boards have an average tenure of six to 10 years, down from 71% in 2024 and a 13% increase from both 2020 and 2015. The longest average board tenure is now 17 years — down from 20 in 2024, 35.5 in 2020 and 21 in 2015.

AVERAGE TENURE OF BOARDS

	2025	2024	2020	2015
New boards/less than 2 years	1%	0%	0%	1%
2–5 years	16%	14%	23%	16%
6–10 years	70%	71%	62%	62%
11–15 years	13%	13%	13%	17%
16–20 years	1%	1%	1%	3%
Maximum average tenure of boards	17	20	35.5	21

[6] U.S. Spencer Stuart Board Index Report 2025

Conclusion 1: The observed tenure distribution (tables above) indicates that a 15-year limit represents a reasonable and pragmatic tenure threshold for U.S. companies, compared with the 12-year standard prevailing in Europe.

Also, based on the S&P 500 statistics gathered[7], we notice that director turnover remains relatively long-dated: in 2024, departing directors had an average tenure of 12.2 years, with 34% having served for 15 years or more.

Formal term limits remain uncommon, with only 9% of S&P 500 boards disclosing term limits for non-executive directors. Where such limits exist, they average 14.7 years and range from 10 to 20 years, with 72% of these boards setting thresholds at 15 years or longer.

Conclusion 2: Based on the available data, an explicitly stated 15-year term limit for individual directors emerges as best practice for U.S.-based corporates.

B. AGE OF DIRECTORS COMPOSING THE BOARD

What's different between EU and US practices and standards (rule- & code-driven):

	Europe / France (EU PIEs)	United States
Directors' Election / Re-election	For example, the AFEP-MEDEF Code in France does not impose a strict age limit for board directors, but it does include recommendations on age diversity and transparency. The legal rule on age comes from the French Commercial Code: for companies with a board of directors, **no more than one-third of directors may be over 70 years old unless otherwise defined** in the company's articles of association (Article L.225-19 of the Commercial Code). The law also stipulates a specific age limit for the Chairman of the board of directors - 65 years by default unless otherwise defined in the company's articles of association. (Article L225-48 - Code de commerce - Légifrance)	In the U.S., board refreshment is driven primarily by evaluations and retirement ages, with roughly 67% of boards adopting a retirement age, **now typically 75**[8].

[7] Ibid
[8] Public Company Series Board Structure and Composition, NYSE, JP Morgan, 2025

Related data and observation

Board age profiles vary meaningfully across markets: in the U.S., new S&P 500 directors have an average age of approximately 59 as of 2025, and only about 5% of all S&P 500 directors are under 50, highlighting limited generational breadth[9]. In contrast, France imposes a statutory cap under which no more than one-third of board members may be over 70[10]. Meanwhile in Germany the average age of DAX 40 board chairs is around 66 year old in practice[11].

Why do practices differ ?

Currently, European practices impose formal age-composition requirements—often codified in law or governance codes—while the U.S. relies on board discretion and investor pressure, without bright-line age-related rules

Where is the middle ground? Working group suggestions to guide company engagement on the point of directors' age level:

Proposal 1: An age limit of 75 year old for individual board members may be considered as good practice, in line with observed market statistics and established good practices (See rationale below)

Proposal 2: A 70-year threshold could be applied to average board age (or to 50% of board members) - this would target only approximately 3% of S&P 500 companies. Then, at the discretion of each investor, exceeding this threshold may trigger engagement:

- with company representatives (e.g., Investor Relations, Head of Sustainability, General Counsel);
  and / or
- with the chair of the nomination committee.

Example of a US company currently applying an age limit:

Becton, Dickinson and Company (BD) does have a director retirement policy tied to age 75, as set out in its Statement of Corporate Governance Principles. Under this policy, non-management directors are generally expected to retire at the annual meeting following their 75th birthday, unless the board determines that an exception is warranted.

Rationale to the working group suggestions presented above:

Reviewing S&P 500 data on the age profile of boards and independent directors indicates that the average age of independent directors consistently hovers around 63 years, while the upper end of the age distribution has shown a declining trend, from 95 years in 2020 to 91 years in 2025[12].

[9] Reuters; US Spencer Stuart Board Index 2025
[10] Corporate Governance 2025, chambers and partners
[11] Supervisory board chair, 2024 Germany Spencer Stuart Board Index
[12] U.S. Spencer Stuart Board Index Report 2025

AVERAGE AGE OF INDEPENDENT DIRECTORS

	2025	2024	2020	2015
Average age of all independent directors	63.6	63.4	63.0	63.1
Youngest average age of independent directors	28	27	32	n/a
Oldest average age of independent directors	91	90	95	n/a
Average age of boards				
Youngest average board age	41	47	51	46
Oldest average board age	75	74	84	75

DISTRIBUTION OF BOARD AVERAGE AGE RANGE

	2025	2024	2020	2015
59 and younger	8%	9%	16%	14%
60–63	38%	41%	46%	46%
64–69	50%	47%	34%	35%
70 and older	3%	3%	3%	4%

Mandatory retirement policies remain prevalent among S&P 500 boards: in 2025, 66% of boards disclose a mandatory retirement age for directors, slightly down from 67% in 2024. The average mandatory retirement age increased marginally to 74.2 years in 2025 (from 74.1 in 2024), with a majority of these boards—60%—setting the threshold at 75, up from 56% in 2024[13].

MANDATORY RETIREMENT AGES AMONG BOARDS WITH RETIREMENT POLICIES

	2025	2024	2015	2005
Boards with a retirement policy	66%	67%	73%	78%
70 and younger	2%	2%	5%	42%
71	0%	0%	1%	1%
72	26%	30%	49%	45%
73	2%	2%	4%	3%
74	6%	7%	6%	1%
75	60%	56%	32%	7%
Older than 75	4%	4%	2%	1%

Conclusion: Market practice demonstrates that setting an age limit at 75 has become both common and well-accepted in the US. The observed age distributions (see tables above) support the view that a 75-year limit may represent a reasonable and pragmatic threshold for U.S. companies, compared with the stricter 70-year limits applied in some European countries.

[13] U.S. Spencer Stuart Board Index Report, 2025

C. OVERBOARDING RISKS - CASE STUDY

Addressing overboarding risks across countries:

Overboarding is a concern for investors that crosses jurisdictions, as the ability of individual directors to fulfil their duties depends on their availability as well as on their competence and experience. For example, on average, independent directors on S&P 500 boards have two public company directorships (2024)[14], going up to five public boards, which appears to be a general limit, especially as regards their capacity to keep high attendance rates across their mandates.

From that perspective, some codes or practices emphasise the importance of time commitment over strict limits on the number of directorships. For specific roles or the board members further restrictions can be considered. For example, companies themselves restrict the possibility of their audit committee members serving on other equivalent committee – this is the case of nearly half (44%) of S&P 500 boards. The limit is even tighter for CEOs, with the majority (61%) of S&P 500 boards limiting them to one outside public board, 2 boards besides their own appearing to be a limit[15].

In the coming years, at the very least, the requirement to inform the company of other board duties and the encouragement to remain within reasonable limits should not waver. To that end, attendance should be closely monitored when a board member takes on new outside roles, so that it remains above 75% (considered normal practice). Investors can use the monitoring data to take this issue into consideration in their dialogue with companies.

D. GENDER DIVERSITY AS PART OF THE BOARD COMPOSITION - CASE STUDY

Improve the representation of women in public company boards:

Over the past 10 years, the trends regarding the proportion of female directors have been convergent across countries, including North America:

[14] Ibid
[15] Ibid

a progressive improvement, from below 20% up to 35% was registered as an average for S&P500 companies[16].

As the goal of achieving more balanced gender representation in developed economies comes closer, the refinements to social and business organisation that this brings should be preserved. No longer does any board of the biggest public companies stand without at least one female director anymore[17], and their contribution has become a concrete reality everywhere.

Of course, the dynamics of improved representation in executive and non-executive roles are closely linked, particularly where executive board members play an important role in the conduct of company operations.

Investors have an interest in monitoring both aspects together when engaging with companies, even if they only elect board directors.

Additionally, according to some studies[18] the proportion of women in board leadership positions in the US continuously improved over the last 3 years, whether for the role of chair, CEO, lead director or committee chair. This positive trend could be leveraged in the future renewal of comparable positions globally, under condition that the pipeline of female board members can be maintained.

[16] Ibid
[17] Glass Lewis, Analyzing Board Composition in the US: What the Latest Data Says on Director Independence, Commitments and Diversity: In the US, all S&P 500 have at least one female director, while less than 6% of the Russell 3000 do not have any women on board
[18] Ibid

II. CEO/CHAIRMAN POSITIONS SPLIT AND ROLE OF EXECUTIVES AS MEMBERS OF THE BOARD OF DIRECTORS

What's different between EU and US practices and standards (rule- & code-driven):

	Europe / France (EU PIEs)	United States
Regulatory & standards-based approach	Governance codes generally require separating the Chairman and CEO roles (e.g., UK and many EU codes). Germany mandates this via its two-tier board system. France still permits the combined chair / CEO model but encourages checks and balances.	No legal requirement to separate roles. Companies retain **full discretion**; separation trends are market-driven rather than rule-driven.
Market practice	In practice, in the UK, there is a near-systematic separation between chairs and CEO[19]. While in Germany, the roles are separated by design. In France[20], from 32 to 40% of roles are combined depending on the year, though the trend is slowly decreasing.	Combined CEO–Chairman roles have fallen across all indices since 2013 and now make up under half of all positions. The S&P 500 long had the highest share and the most independent-chair proposals, but combined roles there have dropped 13% in the past decade—the steepest decline among the indices. Independent chair roles have risen across all indices - shift toward not just separating the CEO and Chairman positions but ensuring genuinely independent board oversight. We also note more Co-CEO structures, such as at Spotify [21].

[19] FRC (Financial Reporting Council);
[20] Trends in the governance of France's listed companies, RussellReynolds, septembre 2023
[21] Harvard Law SchoolForum on Corporate Governance

Role for the Lead Independent Director (LID) or Senior Independent Director (SID)	UK requires a Senior Independent Director when the chair is not independent. France recommends a similar practice when roles are combined (PDG). There is a strong emphasis on independence, tenure limits, and authority of the LID or SID.	When roles are combined, **99%** of S&P 500 boards appoint a **Lead Independent Director** with formalized powers (agenda input, presiding meetings, shareholder outreach). BUT: LID **tenure is often long (>12y)**, sometimes compromising independence.
Executives' presence on the board – country practices observed	In the UK, there is a preference for a majority of independent NEDs[22], limiting numbers of executives. In France, executive directors and non-executive directors coexist on the board but independence ratios are protected. Finally, in Germany, executives sit on the management board only, not the supervisory board.	No hard limit. Some companies have multiple executives sitting on the board. Independence requirements under listing rules apply only to **non-executive** directors.

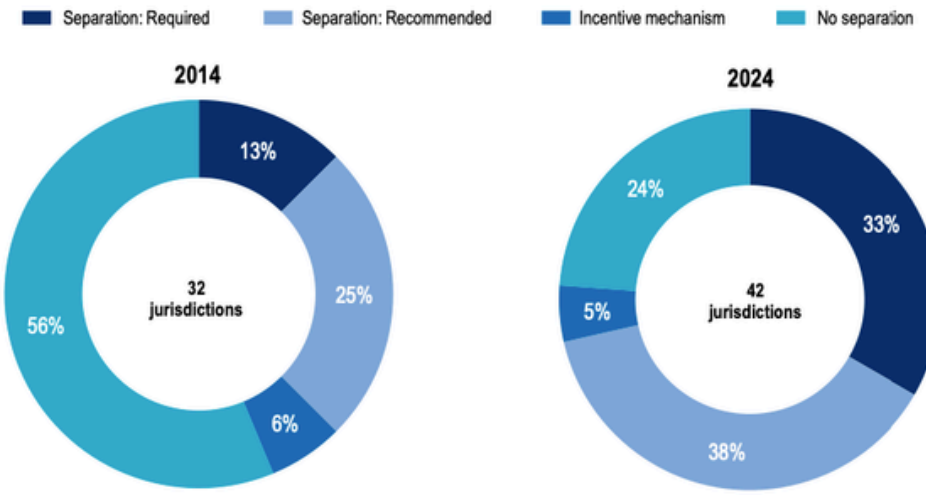
OECD data (2025 report[23]):

In 2024, one-third of one-tier jurisdictions required separating the Chairman and CEO roles, and another 38% recommended it via code recommendations —strong improvement from 13% and 25% respectively in 2014.

Overall, 76% of jurisdictions now require or encourage separating the CEO and Chairman roles, up from 44% in 2014. In two-tier systems, this separation is inherent in the supervisory vs. management board structure.

[22] Non Executive Directors
[23] 2025 OECD report

Separation of CEO and chair of the board roles in one tier board systems



Note: Based on data from jurisdictions that adopt one-tier board systems or allow an option between one-tier and two-tier systems. They are of 32 jurisdictions in 2014 and 42 in 2024. The two jurisdictions denoted as "Incentive mechanism" set forth a higher minimum ratio of independent directors on boards when the chair is also the CEO. See Table 4.7 for data.

Why do practices differ?

European governance traditionally favours limits on power concentration, whereas U.S. boards value leadership flexibility, particularly in founder-heavy tech sector. Investors push for independent chairs, but some companies argue unified roles can be effective in certain contexts.

What approach for investors ?

Major proxy advisors and large asset managers routinely flag combined Chairman/CEO roles as a potential governance risk, citing concerns about power concentration and reduced board oversight in their voting policies[24]. Another dimension often highlighted by investors is the impact of combined leadership structures on succession planning. When the CEO also serves as Chairman, boards may find it more difficult to independently evaluate long-term leadership needs or initiate transitions at the right time. Role separation is therefore increasingly viewed not only as an oversight safeguard, but also as a way to strengthen long-term succession planning and leadership renewal.

[24] Investors Press U.S. Boards to Separate Chair, CEO Roles, ISS Governance, August 2023

Special Case: Start-ups and founder-led companies

Investors scrutinize independence structure, share classes (e.g., double voting rights frowned upon), and special governance arrangements. U.S. founder-led companies often argue that unified leadership can provide faster decision-making, clearer strategic accountability, and stronger alignment in founder-led or high-growth sectors (agility, continuity, "founder vision"). Acknowledging these arguments while emphasizing the importance of oversight can help maintain constructive dialogue during engagements. Therefore, investors can suggest to such companies a strong LID or transition to roles separation over time[25].

Where is the middle ground? Working group suggestions to guide company engagement on the point of combined CEO/Chairman and the role of executives at the board of directors:

A consensus remains among investors that separation of the CEO and Chairman roles can be considered as best practice in both Europe and the United States. Yet, acknowledging regional differences—particularly the more common combination of roles in the U.S. - investors might consider the following good practices when facing a combined CEO/Chairman:

Proposal 1: If CEO/Chairman roles are combined investors might consistently require a robust and genuinely independent Lead Independent Director (LID). Key aspects to ensure the LID acts as functional governance counterbalance would then be:

- Strict tenure limit for independence qualification
- Absence of business or personal links to the company or its executives,
- Professional background and leadership profile, ensuring they can act as a strong counterweight to the CEO/Chairman,
- Review of the LID's formal powers: review of the corporate statutes or governance guidelines to define the LID's rights, such as the authority to call board meetings and/or independent directors' sessions, the ability to influence agenda-setting, access to management and information without restriction.

Proposal 2: Investors might also consider assessing board Independence more broadly in the presence of a combined CEO/Chairman to ensure that reliance on the LID is not misplaced in an otherwise structurally weak board:

[25] National Law Review

- A 33–50% minimum of independent directors—using clear, rigorous independence criteria, especially in markets that still classify former executives or long-tenured members as independent—can be considered good practice.

At each investor discretion, an engagement can be conducted with the investee companies to support and promote some or all these practices.

Special Case: Founder-Chairman structures

Founder-led boards where the founder serves as Chairman - even with a separate CEO – may pose distinct governance risks, making it important for investors to step up vigilance around:

- Minimum board independence: preferably toward the upper end of the 33%–50% range, depending on regional norms and company context,
- Definition of directors' independence, especially where local practices may be more permissive,
- Share class structures: the presence of multiple share classes and/or enhanced (double or multiple) voting rights can materially undermine board oversight.

Rationale to the working group suggestions presented above:

S&P 500 data shows that although the U.S. remains more open to combined CEO/Chairman roles than Europe, there is a clear long-term shift toward stronger independent board leadership—through role separation, independent chairs, or/and increasingly empowered Lead Directors.

BOARD LEADERSHIP

	2025	2024	2020	2015
Chair/CEO	39%	40%	45%	52%
Executive chair	13%	14%	13%	14%
Independent chair	42%	39%	34%	29%
Non-independent chair	7%	7%	8%	5%
Lead/presiding director	61%	66%	73%	89%

Source : U.S. Spencer Stuart Board Index Report 2025

Although 39% of U.S. companies still combine the CEO/Chairman roles in 2025, separation is steadily rising—from 47% in 2021 to 61% in 2025—showing a clear shift toward stronger checks and balances[26]. In parallel, independent chairs in the S&P 500 have also increased from 28% in 2014 to 34% in 2019 and 42% in 2025[27].

This rise is meaningful, still further progress is needed; in the meantime, some robust alternatives can be put in place, for e.g. a strong LID.

Conclusion : Based on available data and current market practice, it can be concluded that investors can apply consistent governance principles across regions, favouring separation of CEO and Chairman roles, or—where roles are combined—insisting on a genuinely empowered and independent LID and a generally balanced board composition. This approach respects regional practices while upholding core standards of balance of power protecting minority shareholders. Higher vigilance towards founder-controlled structures remains essential.

[26] U.S. Spencer Stuart Board Index Report 2025
[27] Ibid

III. RELATIONSHIP WITH AUDITORS

A. AUDIT FIRM'S TENURE

What's different between EU and US practices and standards (rule- & code-driven):

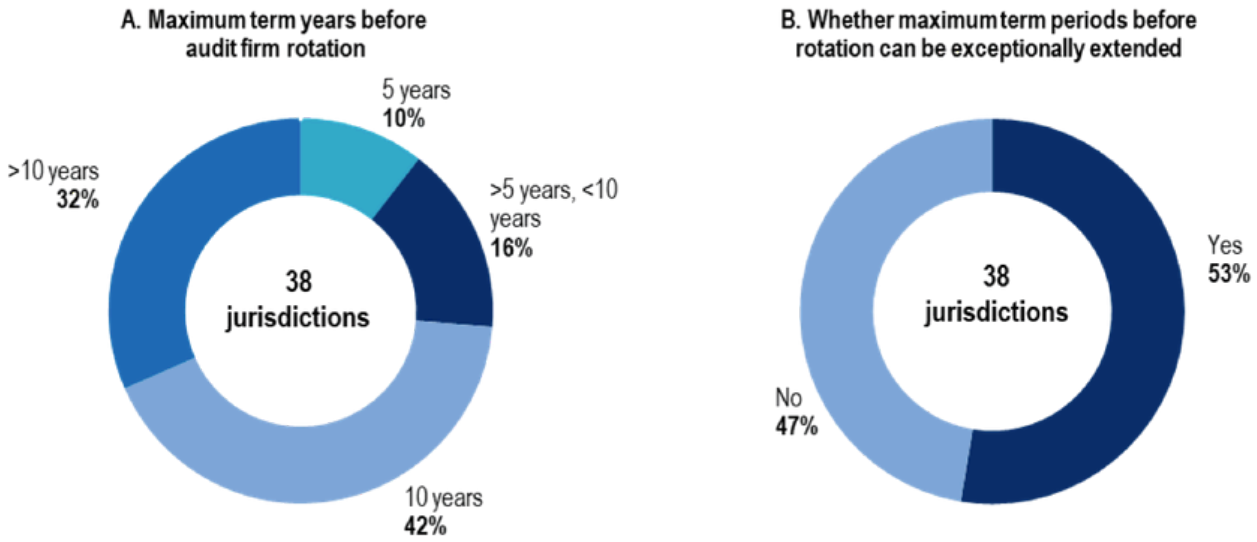
	Europe / France (EU PIEs)	United States
Audit Firm rotation	Mandatory audit firm rotation - generally max 10 years; can extend to 20 via tender or 24 with joint audit. The rule requiring audit firm rotation every **10 years (extendable to 24 years in some cases)** - and sometimes referred to as 12 years in practice - comes from **EU Regulation (EU) No 537/2014 on statutory audit of public-interest entities (PIEs)**. The **12-year figure** often appears in practice because some Member States (including France) allow a **shorter extension period** than the maximum, or companies apply a tender after the initial term, resulting in a combined period of **10 + 2 years** before rotation. **Cap on Non-Audit services (NAS) (see 3) B.)**	**No legal requirement for mandatory audit firm rotation** (i.e., changing the audit firm after a certain number of years). However, there is a requirement **for audit partner rotation under the Sarbanes-Oxley Act of 2002 (SOX)** and **SEC rules** (DART[28]; PCAOB[29]): • **Lead engagement partner and concurring review partner must rotate at least every 5 consecutive years.** • Other partners in significant roles on the audit engagement are generally limited to **7 consecutive years**. • After rotation, there is typically a **five-year "time-out" period** before the same partner can return to the engagement in the same role **No Cap on NAS**

[28] DART Deloitte, Rotation of Audit Partners
[29] IIA, PCAOB Rulemaking Docket Matter No.37

OECD data (2025 report[30]):

Over two-thirds of Factbook jurisdictions require that listed companies rotate their external audit providers after a specified period, typically after ten or more years of engagement. Nearly all jurisdictions have provisions for the rotation of audit partners.

Maximum term years before mandatory audit firm rotation



Why do practices differ?

EU legislated post-crisis reforms to force periodic change and curb Non-Audit Services (NAS) dependence; U.S. opted for partner rotation and an oversight to avoid transition costs of firm rotation [31].

Where is the middle ground? Working group suggestions to guide company engagement on the point of audit firm tenure and independence status:

Proposal 1: Currently applied thresholds across different OECD countries (=/>10y) may be considered as relevant based on the rationale below and data gathered.

Proposal 2: Continuing engagement with corporates on the benefits for them to rotate audit firms as well as regarding the limits and risks of keeping the same audit firm for too long might be considered as

[30] 2025 OECD report
[31] European Union, EUR-Lex

relevant and potentially beneficial for the companies as well as investors.

Any engagement or other action is of course to be initiated and structured at the discretion of each investor.

Example of US companies that recently changed audit firms:

General Electric, Watsco Inc., Fastenal, JB Hunt, etc.

Rationale to the working group suggestions presented above:

Reviewing S&P 500 data on audit-firm tenure, we observe an average tenure of 32 years in 2020, rising to 37 years in 2025 — a notably long period. As investors and governance practitioners and given the ongoing debate and the absence of a formal consensus among US companies, the working group has concluded—after thorough consideration—that we support a policy of relatively regular audit-firm rotation.

Opponents of mandatory auditor rotation	Proponents of mandatory auditor rotation
Deep institutional knowledge: long auditor tenure is advantageous because it allows for the accumulation of client-specific knowledge arising from a learning effect.	Independence concern: long auditor tenure may lead to the development of economic and social bonds between the auditor and client, which will erode auditor independence and audit quality; also, when there is no term limits requirement, if the client is significant to the audit firm (or to key partners), it may create pressure to retain the client; long tenure can coincide with expanded non-audit relationships (even if permitted), increasing risk about conflict of interest.
Efficiency/lower disruption: Fewer re-learning costs year to year; less management time spent onboarding a new firm; smoother audit execution.	A new auditor brings a **"fresh-eyes" or independent "sanity-check" effect**, applying renewed rigor and scrutiny that can reveal issues to address or areas for improvement.

Continuity in judgment areas: More consistent treatment of recurring estimates and policies (impairment, provisions, revenue recognition), reducing volatility caused purely by auditor change; on fraud/controls baseline, a long-standing auditor may detect unusual deviations from historical patterns more quickly.	**Complacency/routine risk:** long auditor tenure could lead to the development of complacency because of the repetitive nature of the audit task, this may lead to a less timely discovery and correction of misstatements.

Research/report examples *[32]*

Conclusion : Based on the available research, audit firm rotation with an adequate frequency can be considered as good practice for corporates across the globe. While it may occasionally entail some loss of efficiency, it helps mitigate potential risks and strengthens overall audit quality.

B. AUDIT AND NON-AUDIT FEES

What's different between EU and US practices and standards (rule- & code-driven):

Europe / France (EU PIEs)	United States
Regulation (EU) No 537/2014 on statutory audit of public-interest entities (PIEs) sets a fee Cap: **Non-audit services (NAS) fees cannot exceed 70%** of the average audit fees paid over the last three consecutive financial years (Article 4(2))	**US regulation does not seem to include any non-audit fee caps.** However, there is a requirement under article 404 of Sarbanes-Oxley Act to have internal controls assessed by management and assured by the independent audit firm. There are also limitations on the types of services that can be performed by a company's independent audit firm. Additionally, "Audit committees must pre-approve all audit and permissible non-audit services (including tax services)[33]"

[32] GAO, Public Accounting Firms ; The accounting review, Auditor Tenure and the Timeliness of Misstatement Discovery ; Michigan Tech, Auditor tenure and the ability to meet or beat earnings forecasts
[33] Rule 3524 of PCAOB - Public Company Accounting Oversight Board : https://pcaobus.org/about/rules-rulemaking/rules/section_3

Where is the middle ground? Working group suggestions to guide company engagement on the point of audit and non-audit fees:

Proposal: A threshold of 25% of non-audit fees out of total fees paid to audit firm seems to represent normal practice and feasible for US companies.

Enhancing requirement on clear disclosure on services included as part of the 25% fees share via engagement is also recommended with the goal to promote transparency, namely on the point of tax optimisation-related fees.

Rationale to the working group suggestions presented above:

	Pros	Cons
Non-audit fees (NAS)	Some NAS can create **knowledge spillovers/efficiency** (auditor understands systems better).	• **Independence:** NAS can create economic dependence and weaken perceived objectivity; if the auditor provides advisory-type services, it can blur lines between independently auditing management's numbers and helping design them; if the auditor later must audit work it helped create (systems, valuations, tax positions), this can create conflicts. • **Lack of transparency:** When services are not clearly described, investors can't judge independence risk; opacity itself becomes a governance red flag.

Tax and transparency

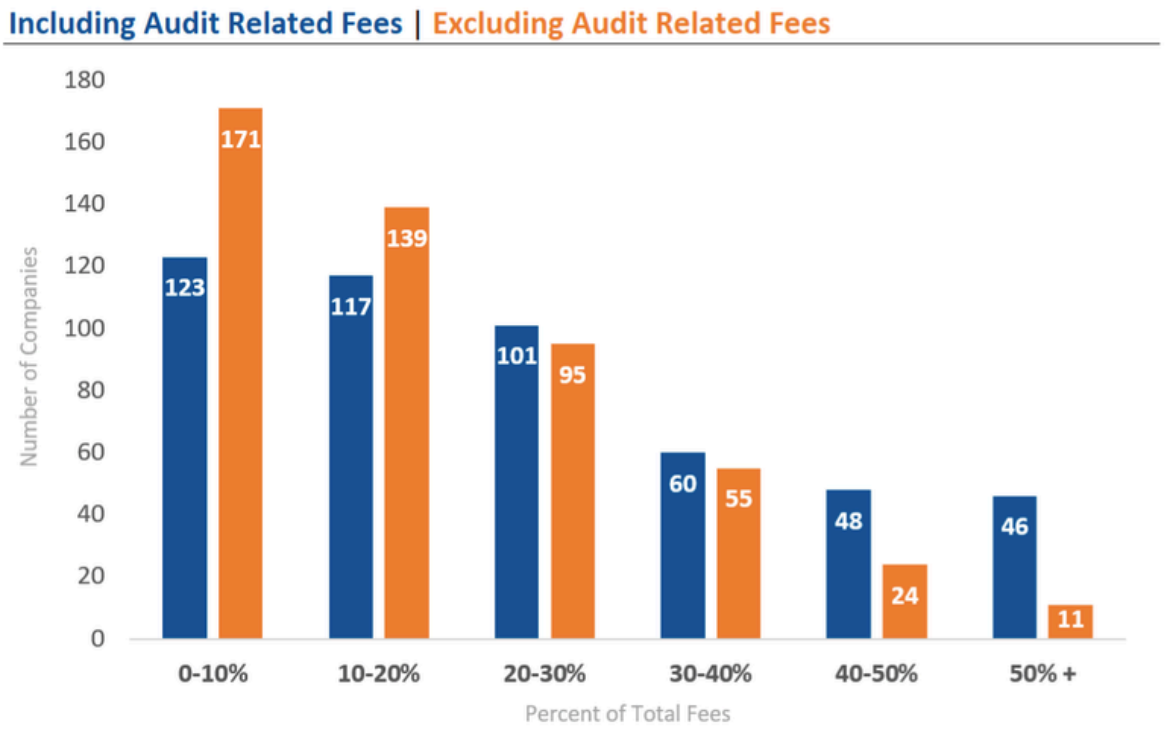
Core concern: Tax planning can look like advocacy/structuring, which heightens independence concerns versus routine tax compliance. For example, EU rules explicitly warn that aggressive tax planning should not be treated as immaterial and should not be provided by the statutory auditor to the audited entity. (source: graph below)

Minimum expectation: In the US, SEC proxy/10-K rules require fee disclosure in four buckets: Audit, Audit-related, Tax, and All other [34].

Best practice: Disaggregate "Tax" into tax compliance vs tax planning/optimization (or explicitly confirm no planning/optimization by the statutory auditor). Research shows firms voluntarily disclose planning vs compliance components to signal what's being purchased [35].

S&P 500

Frequency Distribution : Non-Audit Fees as Percent of Total Fees (2020)



[34] Cornell Law School, § 240.14a-101 Schedule 14A. Information required in proxy statement.
[35] Science Direct, Journal of Accounting an Public Policy, Why do audit clients voluntarily disclose the compliance and planning components of auditor provided tax services?

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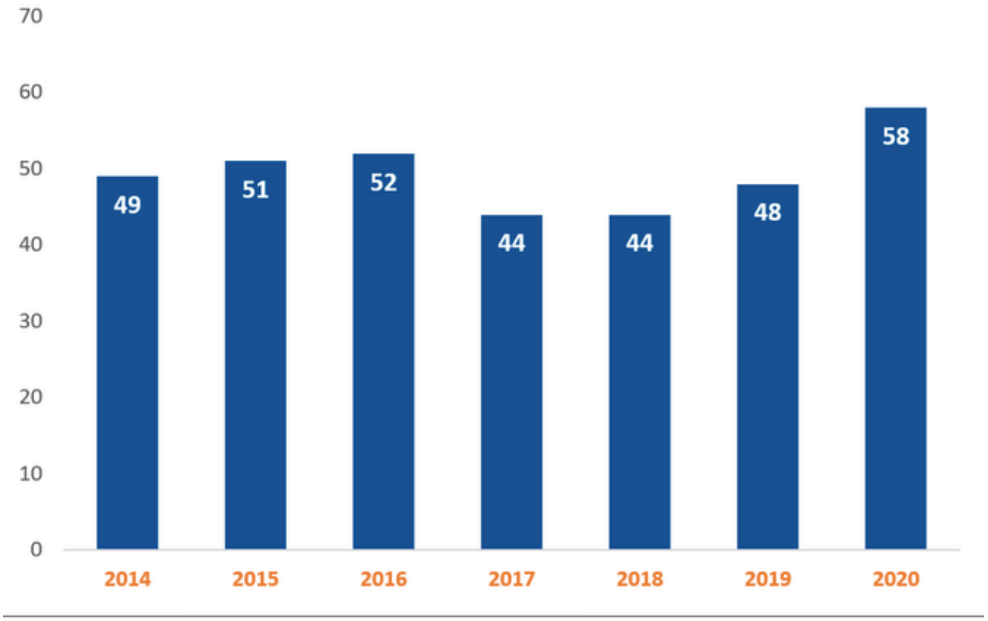
Companies with significant* Non-Audit Fees



Source: Ideagen, 2022

Conclusion : Based on the available research, limiting non-audit fees and providing transparency on non-audit services provided can be considered as good practice, as it helps unveil and then mitigate potential risks and strengthens overall audit quality.

Disclaimer :

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