
Following the arrest of CEO Carlos Ghosn, Vigeo Eiris downgrades the governance scores of Renault, Nissan and Mitsubishi

Vigeo Eiris has issued a downgrading alert to its investor and asset manager clients for Renault, Nissan and Mitsubishi, significantly downgrading certain governance scores of these three companies following the arrest of their CEO in Tokyo on 19 November 2018.

Carlos Ghosn is accused of reporting falsely low remuneration figures to the Japanese tax authorities in recent years, thereby failing to comply with Tokyo Stock Exchange's transparency requirements and exposing himself to the risk of imprisonment. Mr Ghosn is also subject to allegations regarding the use of Nissan resources for purposes unrelated to the company's corporate purpose, such as the purchase and renovation of personal residences. Nissan and Mitsubishi have both announced their intention to dismiss Mr Ghosn.

In a press statement on 20th November, French Minister of Economy and Finance Bruno Le Maire announced the intention of the French government, which owns 15% of Renault's shares, to set up provisional governance measures to ensure the continuity and development of the car manufacturer's activities. On the same day, Group Deputy CEO Thierry Bolloré was appointed to replace Mr Ghosn in the interim.

This governance crisis led Vigeo Eiris to downgrade the scores of Renault, Nissan and Mitsubishi on the sustainability criteria relating to this theme. Renault (which owns 43% of Nissan and 34% of Mitsubishi) and Nissan are directly affected by the allegations against Mr Ghosn and their scores were reduced for the following criteria: functioning of the Board of Directors; audit and internal control systems; and executive compensation and the prevention of fraud and corruption. For Mitsubishi, the deterioration in scores concerns the independence and effectiveness of audit and internal controls.

Renault's previous governance scores regarding the power and the functioning of the Board of Directors were significantly higher than the automotive sector average score and the scores of both Nissan and Mitsubishi: Renault scored 43/100 compared to 26/100 for Nissan and 31/100 for Mitsubishi.

Nissan and Mitsubishi previously scored low on the independence and effectiveness of audit and internal control criteria (13/100 and 0/100 respectively) compared to 54/100 for Renault, who performed above the global average on this criterion (39.3/100).

Nissan and Renault’s scores on the clarity and objectivity of their executives' compensation systems, particularly in terms of integrating sustainability factors into the determination of their bonuses, were particularly low: 08/100 for Nissan and 16/100 for Renault against a limited global average (23.1/100). Business ethics scores relating to fraud and corruption prevention also differed between the two companies, with Nissan scoring 32/100 and Renault 40/100 above the global average (35.9/100). All scores above are pending completion of the judicial investigations and the announcement of measures taken by the various players in the Renault-Nissan-Mitsubishi alliance.

Over the past three years, automotive companies have been the subject of 63 serious controversies involving their governance and 25 controversies involving their ability to prevent fraud and/or corruption. Among these companies, Nissan has been sued for breaching the data protection of more than one million consumers in Canada, for falsifying the emission and energy efficiency indicators of its plants in Japan, and for the compensation of its president, which was considered excessive by several stakeholders. Carlos Ghosn's level of compensation as CEO of Renault was also heavily criticised when he received stock options (€6 million).

Fouad Benseddik, Vigeo Eiris’ Director of Methods and Institutional Affairs stated: "Regardless of the actions of Carlos Ghosn, these events confirm that Boards of Directors have a responsibility to set up specialist nomination, remuneration and audit committees, which are genuinely independent, competent and stringent, and are able to identify, control and reduce the risks of abusive or deviant behaviour by the executives, on behalf and in the service of the company's social interest".

For more information:

Vigeo Eiris Press contacts:

PARIS	Anita LEGRAND	+33(0)1 55.82.32.44	anita.legrand@vigeo-eiris.com
BRUSSELS	Jordi LESAFFER	+32.2.206.11.17	jordi.lesaffer@vigeo-eiris.com
CASABLANCA	Rime OUADI	+212.522.87.14.77	rime.ouadi@vigeo-eiris.com
HONG KONG	Juliette MACRESY	+8522 588 34 41	juliette.macresy@vigeo-eiris.com
LONDON	Safiya JUMA	+44 (0) 20 3752 5768	Safiya.juma@eiris.org
MILAN	Simonetta BONO	+39 02 27 72 71 40	simonetta.bono@vigeo-eiris.com
TOKYO	Hiroaki AOKI	+32 2 206 67 94	hiroaki.aoki@vigeo-eiris.com
SANTIAGO	Fanny TORA	+56 2 29 07 40 68	fanny.tora@vigeo-eiris.com
MONTREAL	Anne QUINTAL	+1 514.214.9339	anne.quintal@vigeo-eiris.com
STOCKHOLM	Kristina SVANTESON	+46 (0)73 663 62 46	kristina.svanteson@vigeo.com

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- **For investors:** decision-making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more)
- **For companies & organisations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

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