Corporate Governance Committee

2016 ANNUAL REPORT

4TH REPORT ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

December 1st 2016

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I. 2016 ANNUAL REPORT

2016 marked the beginning of the sixth year of operation of the Corporate Governance Committee (hereinafter the "Committee"), reconstituted in 2011 by historic promoters of the Corporate Governance Code (Italian Stock Exchange, Abi, Ania, Assogestioni, Assonime and Confindustria), with the aim of ensuring a continuous and structured activity to the production and monitoring of the best practices recommendations applicable to Italian listed companies.

In its current configuration, the Committee has neither legal nature nor economic independence. Its organizational rules ensure continuity and regularity of its activities. The Committee organizational rules (available on the Committee website) have been set upon agreement of the promoters and shared by the Committee during its first meeting, held on June 14th, 2011. They concern the composition of the Committee, its purpose, convening procedures, voting quorum as well as the procedure for the submission of the resolution proposals to the Committee.

1. Activities of the Corporate Governance Committee

Since the meeting held on December 9th, 2013, the Committee decided to approve, on an annual basis, a report on its activities, including a monitoring report on the compliance with the Italian Corporate Governance Code (hereinafter also only the "Report" and the "Code"). Since its first release in 2013, the Report entails a first section dedicated to a general overview on the compliance with the Code and to the corporate governance of the Italian listed companies and a second section represented by a focus that addressed, in 2013, the self-evaluation by the board of directors, in 2014, the quality of the application of "comply or explain" principle, and, in 2015, the effectiveness of the board of directors. The 2016 Report is focused on the quality of the remuneration policies (see below).

During the meeting held in July 2016, the Committee, consistently with its decision to amend the Code no more than once every two years[1], decided not to plan, for the time being, a revision of the Code, in light of the issuers' need for stability and clarity of the current regulatory framework. Such choice has been complemented with the decision to strengthen the monitoring activity that the Committee carries out on the compliance with the Corporate Governance Code, already implemented, by the way, in the end of 2015, by sending a formal

[1] Since 2015 the *guide principle* VII of the Code expressly provides that the Committee shall consider Code's revision usually every two years, except in case of urgency. The Code version highlighting the last revision adopted in July 2015 is available on the Committee website.

letter to all the Italian listed companies, whereby the Committee pointed out some key issues[2] inviting companies to take them in due consideration.

During the July meeting, the Committee also considered certain areas of interest for future activities to be carried out by the same Committee.

Among the possible areas of improvement of the Code, the Committee considered the possibility to introduce or strengthen the recommendations on certain topics deemed particularly important for the improvement of Italian listed companies governance. On such occasion, the Committee, while deciding not to revise immediately the Code, took in due consideration the evolution of the best practices aimed at ensuring an effective functioning of the board, with particular regard to the role of the chairman and of the lead independent director, the adoption of succession plans as well as the role of the board in assessing its own best composition.

A second topic addressed by the Committee was the sustainability of business in a medium-long term perspective. In such respect the Committee considered that the sustainability principle as well as the evaluation of risks that may have an impact on it have been already considered in 2015, being included among the Code's principles that already recommend to the board of directors to pursue, as business goal, the creation of value for shareholders in the medium-long term (see art. 1) that is also one of the principles to be complied with in the definition of the variable remuneration of executive directors (see art. 6). Main Code's updates occurred in 2015 regarded the introduction of an explicit reference to the medium and long-term sustainability principle (see *criterion* 1.C.1., lett. b)) as well as an *ad hoc* reference in the comment to art. 4 to specific sustainability-related tasks that companies may grant to a specific committee or to already established board committees. Considering the recent revisions and the overall adequacy of the Code in the field of sustainability of the business in a medium-long term perspective, the Committee decided not to introduce new changes; a further amendment to the Code could be, indeed, premature in light of the evolution of the regulatory and self-regulatory framework, running the risk to crystallize best practices still under development at international level.

Finally, the Committee considered whether simplifying the self-regulatory framework for listed SMEs. Such sub-group of listed companies is particularly important both for their number and importance[3] and for the increasing attention paid to them by Italian policy-

[2] Please refer to Chapter III of this Report for further information on the content of the letter and the conclusions by the Committee on the detected issues.

[3] According to the data provided by Confindustria, the 95% of the Italian enterprises are small or medium sized businesses and produce a significant quota of the Italian GDP.

makers[4]. The growth in size and capitalization of such companies, regardless the listing prospects, strongly depend on organizational structures and adequate competences. The Committee pointed out that the flexibility characterizing the Code already allows listed companies to modulate the Code's recommendations on the basis of their structural and/or temporary needs, providing, *inter alia*, also specific simplifications for SMEs[5]. Notwithstanding the above, the Committee considered it appropriate that the Technical Secretariat and the Experts further discuss the evolution of the best practices concerning the corporate governance of SMEs to encourage their access to capital markets also in light of the main foreign experiences[6].

Finally, during the meeting held on December 1st 2016, the Committee approved this Annual Report, including the Fourth Report on the compliance with the Code, drafted by the Technical Secretariat with the support of the Experts and based on data provided by corporate governance studies published or submitted to the Committee.

In 2016 the Chairman of the Committee also met with the chairmen of the custodians of national corporate governance codes in France, Germany, the Netherlands and the United Kingdom. On such occasion, the chairmen confirmed their commitment to ensure continuity to their meetings to discuss the recent evolutions of corporate governance best practices, as well as regulatory changes, both at domestic and European level. In the context of the meeting they shared the need to maintain a balance between regulation and self-regulation in the field of corporate governance, both at national and European level. To this end, at the conclusion of the meeting, the chairmen decided to adopt a common statement on the importance and effectiveness of the European model of corporate governance codes which collect the best practices developed at the international level, offer to listed companies adequate flexibility in their application and ensure an high level of disclosure of the model actually adopted. Finally, the chairmen invited domestic and international legislators to carefully consider any regulatory initiatives on topics already addressed by corporate governance codes.

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[4] See for example the setting-up of the s.c. Fondo di Garanzia for SMEs, the s.c. "mini-bond", the regulatory changes concerning SMEs and innovative start-up, regulatory simplifications and the projects promoted by Italian Stock Exchange (Più Borsa, Elite).

[5] See, for examples, the recommendations concerning the composition of the committees of listed companies whose board of directors is composed by no-more than eight members, as well as the strengthened recommendations for the companies that belong to the FTSE-Mib index in relation to the number of independent directors, the appointment of the lead independent director and the establishment of a sustainability committee (or the attribution of the relevant tasks to already established committees).

[6] Among the European countries it is worth to refer to the experiences in France and United Kingdom, where corporate governance codes addressed to SMEs have been adopted (see *Code de gouvernement d'entreprise Middlenext* e *Corporate Governance Code for Small and Mid-Size Quoted Companies*). For the contents see below.

As usual, the Committee continues to join the European network of corporate governance codes (http://www.ecgcn.org).

In order to promote further discussion on corporate governance in Italy, the Committee hosted, at Italian Stock Exchange headquarter, on December 1st and 2nd 2016, the second edition of the Italy Corporate Governance Conference, providing the international financial community with the opportunity to discuss the most relevant topics regarding corporate governance, both from institutional investors' and listed companies' view.

2. Evolution of the European and international self-regulatory framework

In 2015, the Italian Committee stated to assess, at least every two years, whether to update the Corporate Governance Code, while, in 2016, carrying out such assessment, decided not to immediately amend the Code, deeming as prevailing the need for certainty of the self-regulatory framework and the priority of an effective of the monitoring on the Code's application by listed companies. Such decision has been taken, taking also into account the new trends in the self-regulatory framework, both at European and international level, that may represent a good reference point for assessing whether the Code is in line with the evolution of the international best practices and for drafting further Code revisions.

Nevertheless, considering the evolving international landscape, the Committee has detected some new trendsthat could be considered in view of its future activities.

G20/OECD Corporate Governance Principles

On 5 September 2015, G20 and OECD published the new edition of the Corporate Governance Principles[7] addressed to a wide number of policy makers and market operators in order to contribute to economic efficiency, sustainable growth and financial stability as well as to improve corporate governance policies and support the evolution of corporate governance practices.

The new edition of the Principles is divided into six chapters: i) ensure the foundations for an effective corporate governance; ii) the rights and equitable treatment of shareholders and key ownership functions; iii) institutional investors, stock markets, and other intermediaries; iv) the role of stakeholders in corporate governance; v) disclosure and transparency; vi) the responsibilities of the board.

Each chapter is divided into principles (highlighted in bold) and sub-principles, having the aim to explain the scope of principles, also through the description of the legislative and self-

[7] See *G20/OECD Corporate Governance Principles*, available on the OECD website. The recent revision of the Principles, adopted in 1999 and previously amended just in 2014, has marked also their adoption by the G20.

regulatory consolidated or emerging trends as well as of examples of alternative patterns for the application of the principles. With regard to corporate governance and to self-regulatory framework, last revisions have resulted in a wider reference to self-regulation and to the "comply or explain" principle as well as the importance of the quality of the financial and non-financial disclosure; the recommendations regarding the role of the board and of the nomination committee in the proceedings for the appointment of directors, the need for adequate internal control systems and procedures as well as the importance of the board evaluation have been strengthened.

Commonsense corporate governance principles

In 2016, a limited while representatives group of key members of listed companies and institutional investors having their registered office in the United States has brought together in one document the best corporate governance practices deemed essential for well managing a business. Such principles[8] represent a collection of recommendations and guidelines on the role and responsibilities of the board of directors, shareholders and companies. The collection of the principles on the corporate governance of listed companies as well as the flexible approach underlined by authors both in the introduction to the principles and in the letter published on such occasion, reflect, in general, the main features of the European model of the corporate governance code: flexible but transparent codification and application of the recommendations.

Evolution of the European corporate governance codes

In 2016 some major revisions to the main European corporate governance codes have been planned. In France, the Afep, the association of French enterprises that promoted the adoption of the code and contributed to the establishment of the French committee for the monitoring of the code's application, published a proposal for the revision[9], focusing on the remuneration of directors. The main proposed revisions[10] concern, in fact,: i) more responsibility for the board of directors in defining the remuneration policy, with particular regard to the setting of performance objectives which the variable compensation is related to; ii) binding nature to the negative vote expressed by shareholders on remuneration; iii) more transparency on extraordinary payments and severance payments. As to the binding nature of the vote by

[8] See *Commonsense Corporate Governance Principles*, available on the following website, together with the letter of the promoters.

[9] The proposal for the update of the Code is available on the Afep website that also prepared a questionnaire on the main proposed amendments. The consultation has been closed in September 2016.

[10] Among the other proposals it can be also found: i) a clear distinction between executive and non-executive directors; ii) the necessary status of independent of the directors entrusted with specific tasks concerning governance and relationship with shareholders: iii) the elimination of the recommendations concerning gender diversity following their transposition in the context of the regulatory framework; iv) the provision of a variable remuneration as a presumption of non-independence.

shareholders on remuneration, the proposal introduces an obligation for the board of directors to meet without delay to discuss the reasons for the negative vote, define, after having consulted the remuneration committee, the amendments to be made to the new remuneration policy and report to the next shareholders' meeting. As to the guidelines to define the policy on variable compensation, the proposal requires that the criteria identified for its definition shall be strict, transparent and in line with the long-term objectives of the business. Moreover, as to the severance payments, the proposal clarifies that such payments, if any, shall not exceed the threshold of two times the annual salary, such salary including both fix and variable compensation. As to the decision to pay severance indemnities, the proposal makes it clear that the board shall justify such a choice and disclose it to the public.

In Germany, the Commission for the adoption of the corporate governance code published a set of proposed amendments to the code[11], inspired by three main revisions: i) linking corporate governance to ethical principles of social economy; ii) strengthening the transparency toward stakeholders on corporate governance; iii) attribution of a specific role to the chairman of the supervisory body in the communication with investors. With regard to ethic and sustainability, the proposal aims at promoting not only more responsibility in the management of the enterprise, but also a strengthening of the recommendations addressed to institutional investors, inviting them to an active and responsible exercise of their rights.

The care of the communication with investors is also reflected in the proposed tasks to be granted to the chairman of the supervisory board, which is called to interact, under certain conditions, with institutional investors around the tasks which the board is entrusted with. The proposal also reinforces the transparency required on the information concerning the composition of corporate bodies and the definition of the variable component of directors' remuneration. As to the increased transparency vis-à-vis shareholders, the Commission, while approving the abolition of the obligation to publish quarterly reports, has adopted the best practice to communicate to shareholders, in addition to the annual and half-yearly reports, information on the trend of the business, paying particular attention to material changes in business prospects as well as in the risks faced by the company.

In Dutch, the Committee, in charge of adopting and monitoring the corporate governance code, put in consultation[12] several revision proposals of the code's recommendations. The fundamental principles that have inspired the proposals are aimed at enhancing i) the fundamental objective of value creation in the long term and ii) the promotion of business

[11] The consultation has been published in November 2016 and will end in December this year; the consultation will be published on the website of the German Commission in February 2017. The consultation is available, also in English, on the Commission website.

[12] The consultation has been closed in April 2016; the amendments to the code will be made public by the end of 2016 and will enter into force as from January 2017. The consultation is available, also in English, on the Commission website.

culture, making the management body responsible for the achievement of both objectives. In particular, the abovementioned principles have strongly influenced the proposal of amendments regarding the remuneration of the members of the management body[13]. The proposal also contains certain recommendations for better setting-out the criteria indicated for the disclosure of the explanation provided in case of non-compliance with specific recommendations of the code as well as more attention to the management of the risks in the context of the recommendations regarding internal control system defined by the code. Finally, several minor amendments have been proposed to make more effective[14] the functioning of the management and control bodies, enhancing, particularly, the recommendations regarding competence, skills and independence of their members as well as the ones regarding their renewal and replacement.

In Spain, the public authority in charge of the adoption and monitoring of the code approved guidelines[15] that provide listed companies with clear directives on how reporting the cases for non-compliance with the code's recommendations and to improve the explanation provided in the corporate governance report. Similar guidelines have been adopted in 2015 also by the French High Committee[16].

Based on the analysis of the main changes and the grounds provided in the context of the consultation, certain trends can be detected: the development of an ethical and cultural approach to corporate governance principles, the enhancement of the transparency with particular regard to the explanation provided in case of non-compliance with code's recommendations, the care of the relationship with shareholders. The development of an ethical and cultural approach to corporate governance have been discussed in depth at international level; such a topic has been addressed, for example, in the study published in the

[13] The proposals are aimed at encouraging the adoption of a remuneration policy oriented to value creation in the long term, recommending the predetermination of the objectives of the variable compensation, the indication of the ratio between fix components and variable components, the introduction of claw-back clauses. The consultation document requires also to fix a cap to the termination indemnity that shall not exceed the threshold of an annual fix salary or, if such amount shall appear not enough, the indemnity shall not anyway exceed two times the fix salary.

[14] The proposals are aimed at enhancing the recommendations concerning: i) clarity on the composition and information flow of the executive committee; ii) adoption and implementation of a policy on the diversity of the members of the corporate bodies; iii) adequate commitment and competence by directors for the fulfilment of their duties, providing adequate induction programs; iv) enhancement of the independence criteria of the members of the supervisory body; v) restrictions to the renewal of the mandate; vi) enhancement of the succession plans with view to keep an adequate balance between experience and competence of the corporate bodies members; vii) more strictness of the recommendations on the self-evaluation by the board; viii) adequate composition of the internal committees.

[15] See *Guía técnica de buenas prácticas para la aplicación del principio «cumplir o explicar»*, July 2016, available on CNMV website.

[16] See the *Guide d'application du Code Afep-Medef de gouvernement d'entreprise des societes cotees*, November 2015, available on the Afep website.

context of the OCSE[17] project Trust&Business and recently also in a report of the Financial Reporting Council.[18]

OCSE study points out the opportunity of making the board and the management of the company more responsible both in the application of the ethical principles and the governance model and in the monitoring on the application of the policies for protecting business integrity. The study highlights the increasing attention for business integrity, also in compliance with the recommendations set forth by the Corporate Governance Principles adopted by G20/OCSE, with an increasing involvement of the board of directors or also of an *ad-hoc* committee. In those companies that undervalued such topics, OCSE notes that such choice is often matched with a not adequate assessment of risks that may arise from the lack of prevention of serious accidents.

Codes for growth companies

The monitoring on the evolution of the best practices at international and European level underlined the development of more attention by the standard setters for SMEs, regardless of the listing prospects on the main market.

At international level, OECD has already published in 2006 a survey[19] on the corporate governance of non-listed companies, focused on family-owned businesses, while pointing out that such businesses represent only one of the different kinds of non-listed companies.[20] To this purpose, the main issues in the corporate governance of family-owned firms have been analyzed, pointing out the principles that shall inspire their governance model. Among the most relevant aspects, it is useful to remind the observations on the composition and nomination of the board of directors: notwithstanding the importance of the independence of substantial judgement, the survey points out, for example, the prevailing importance of adequate professional skills and competence of board members (regardless of their formal status of independent directors) [21], as well as the need for providing adequate procedures for

[17] See the OECD, *Trust & Business. Corporate Governance & Business Integrity*, 2015, available on the OECD website.

[18] See the Financial Reporting Council, *Corporate Culture and the Role of Boards*, July 2016, available on the FRC website.

[19] See OECD, *Corporate Governance of Un-Listed Companies in Emerging Markets*, 2006, available on the OECD website. On such topic see more recently the observations contained in OECD, *Corporate Governance, Value Creation and Growth*, 2012, available on the OECD website. In the context of the study on growth companies, see also OECD, *Growth companies, access to capital markets and corporate governance*, September 2015, available on the OECD website, that examines issues that companies may face in accessing capital markets and the corporate governance standards that such companies shall meet to satisfy the needs of investors. The survey, based on a wide empirical analysis, highlights particularly that less SMEs access capital markets and the average size of newly-listed companies has increased, explaining such findings, *inter alia*, also in light of the increased compliance costs related to being listed.

[20] Reference is made to, for example, family-owned companies, state-owned companies, group-owned companies, private investor-owned companies, joint ventures and mass-privatised companies.

[21] See OECD, *op. cit.*, page 10: *"corporate governance problems could be minimised by the appointment of competent – rather than independent – professional outside directors"*.

the succession of the executives and management, that provide the involvement of the shareholders other than the controlling shareholder. A second aspect addressed concerns transparency that while giving rise to more costs for the company represents an important tool to monitor and manage the risks of the business. In the context of the transparency, the survey highlights also the importance of a transparent management of conflicts of interests. As to the adoption of codes for non-listed companies, the survey considers as preferable a less strict application of the best practices addressed to listed companies (*e.g.* comply or explain principle to be applied only in relation to a limited number of code's recommendations), rather than the adoption of a new set of standards for non-listed companies.

In the United Kingdom, the *Quoted Companies Alliance*, an independent organization promoting the interests of SMEs, in 2013 adopted a corporate governance code dedicated to minor-sized listed companies called "growing companies"[22]. Indeed, the code is addressed to listed companies that are not subject to the "general code"[23], referring explicitly to those companies listed on the Standard segment of London Stock Exchange regulated market and those listed on the UK AIM and on the markets managed by the ICAP.[24] The code is composed by twelve principles comprising the principal elements of the UK Corporate Governance Code, the practices developed and the guide-lines deemed as particularly important for listed SMEs. The code is based on the "comply or explain" principle.

Always in the United Kingdom, also the association that represents board members (Institute of Directors, also only "*IoD*") adopted in 2010 a code collecting corporate governance guide-lines and principles addressed to listed companies.[25] Such code identifies, particularly, corporate governance areas, deemed fundamental for a non-listed company: competence ad education of directors, effective functioning of the board (meetings, adequate information flow), an effective dialogue between board and shareholders, a proper remuneration to retain directors.

In France, the association of the small and medium listed companies (*MiddleNext*) adopted in 2009 and updated in 2016 a code addressed both to SMEs listed on the main market with a

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[22] See Quoted Companies Alliance, *Corporate Governance Code for Small and Mid-Size Quoted Companies*, 2013.

[23] Reference is made to the UK Corporate Governance Code, prepared and monitored by the Financial Reporting Council, explicitly addressed to companies listed on the Premium segment of the regulated market managed by London Stock Exchange.

[24] The UK AIM is an MTF, managed by London Stock Exchange and addressed to small-sized companies. As to the markets managed by ICAP, they can be distinguished in *ISDX main board*, primary market, and *ISDX growth market*, an MTF addressed to growing companies.

[25] See IOD, *Corporate Governance Guidance and Principles for Unlisted Companies in the UK*, 2010, available on the Institute website, that adopted the principles set out by EcoDa at European level, *Corporate Governance Guidance and Principles for Unlisted Companies in Europe*, always adopted in 2010 and available on the EcoDa website.

market capitalization less than €1 billion, and to SMEs listed on a MTF (e.g. *Alternext*).[26] The code expressly provides not to be in conflict with the one adopted by *Afep* and *Medef* ("ordinary" code for listed companies), but it represents an alternative for smaller listed companies. The code summarizes, simplifying or making less stringent, best practices, usually contained in "ordinary" codes and provides that their application shall be based on the general principle of comply or explain. MiddleNext carries out, since 2009, also a monitoring[27] on the code's application, highlighting an increasing number of complying companies.

The evolution of best practices addressed to institutional investors

The first codification of the best practices addressed to institutional investors for a proper management of their "stewardship responsibilities" took place in United Kingdom by the adoption of the UK Stewardship Code, a best practices code addressed to institutional investors that originates from the Statement of Principles[28], published by the Institutional Shareholders Committee (*ISC*). Following the Walker reform in 2009, the Financial Reporting Council (*FRC*) was entrusted with the revision and preparation of the code. The first edition of the Stewardship Code was published by the Financial Reporting Council[29] in 2010, and subsequently subject to revision[30] ended with the publication of the last edition in 2012. Since 2014, the Financial Reporting Council, also in charge of the preparation and monitoring of the corporate governance code for listed companies, handles the monitoring on the compliance with the recommendations contained also in the code for investors.[31]

Certain important models of best practices codes addressed to institutional investors have been developed at international level: the corporate governance Principles of the International Corporate Governance Network[32] and the Code for External Governance, adopted in 2011 by

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[26] See MiddleNext, *Code de gouvernement d'entreprise pour les valeurs moyennes et petites*, 2016, available on the MiddleNext website.

[27] See the last report published by MiddleNext, *Rapport 2015 sur les entreprises faisant reference au Code de gouvernance Middlenext*, March 2016, available on the association website.

[28] See the European Corporate Governance Institute (ECGI), *The Responsibilities of Institutional Shareholders and Agents: Statement of Principles*, 2002, available on the ECGI website.

[29] The Financial Reporting Council is also entrusted with the preparation of the UK Corporate Governance Code, addressed to listed companies.

[30] 2012 revision was mainly aimed at improving the definition of stewardship and stewardship responsibilities as well as to specify the scope of the code, particularly in relation to the comply or explain principle.

[31] The last monitoring published by the Financial Reporting Council, on the application of both codes, dates back at January 2016; see FRC, *Developments in Corporate Governance and Stewardship*, 2015, available on the FRC website.

[32] ICGN *Global Governance Principles*, lastly amended in 2014, collect the international best practices both for companies and institutional investors: they are divided into two sections, the first addressed to the board of directors, while the second to institutional investors, meaning both as asset owners (owners of the shareholdings) and as asset managers (managers of the shareholdings like, for example, asset management companies).

the European Fund and Asset Management Association (hereinafter, also only "Efama"). A reference to stewardship responsibilities can be also found in the new edition of the OECD and G20 Principles of Corporate Governance, in which it is stated that the engagement includes not only the exercise of voting rights, but also the development of a continuous dialogue with the investee companies.[33]

In Italy, the Assogestioni's Board adopted, on October 1st 2013, the Italian Stewardship Principles, that basically reproduce the contents of the European stewardship code issued by the European Fund and Asset Management Association ("Efama Code for External Governance"). The Principles set out the main rights and duties of asset management companies, in order to promote a dialogue between asset managers and investee listed companies. Recommendations concern, in particular, both the adoption and application of a policy for the exercise of the rights attached to the financial instruments held in portfolio, and the responsible management of the continuous dialogue with investee companies, ensuring that the discussions with their representatives are adequate and fair. In September 2015, Assogestioni also introduced the applicative criteria in the Principles that reflect the recommendations provided for by the Efama Code, adapting the latter to the peculiarities of the national jurisdiction. In May 2016, the Board of Assogestioni carried on a fine-tuning of the Principles, aimed at further improving certain code's recommendations for the development of good governance and an even more constructive dialogue between investee companies and investors.[34]

In 2016, in line with as previously announced by Assogestioni, the compliance with the Principles was assessed for the first time having regard to their application during year 2015. The monitoring activity, which an external subject has been entrusted with, who has developed an *ad-hoc* monitoring tool in cooperation with the Stewardship Working Group of Assogestioni, was carried out on 12 companies, of which 10 Italian. The overall asset under management of the companies under review is equal to Euro 788 billions. The questionnaire has been carried out also looking at the UK monitoring experience on the compliance with the FRC's Stewardship Code. The outcome of such activity has been published in the 2015 Report[35], which provides also some practical examples of engagement adopted by asset managers and reported as best practices.

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[33] See G20/OECD Corporate Governance Principles, quote, pp. 29-30, that refers to the practices of the stewardship codes.

[34] The last edition of the Principles is available on the Assogestioni website: see *Principi italiani di stewardship*, ed. 2016.

[35] Assogestioni-EY, *Monitoraggio sullo stato di applicazione dei Principi Italiani di Stewardship per l'esercizio dei diritti amministrativi e di voto nelle società quotate. Report 2015*, June 2016, available at the following link http://www.assogestioni.it/index.cfm/3,207,11303/stewardship-report-20160610.pdf.

3. Evolution of the domestic and European regulatory framework concerning corporate governance

Evolution of the regulatory framework in the banking industry

Corporate governance regulation of banks, characterized by a lot of peculiarities compared to non-banking businesses, continues to be interested by further legislative reforms, transposing the *Capital Requirements Directive* (so called CRD IV, EU Directive 2013/36).

Thus, in October 2016 two Guidelines have been put in consultation, addressed to financial companies and the competent national authorities, responsible for their transposition in each jurisdictions that are not already compliant. Both the consultations will close in January 2017.

The first document, prepared by EBA and ESMA, for the transposition of the abovementioned CRD IV (art. 91.12) and EU Directive 204/65 so called MIFID 2 (art. 9.1), proposes the definition of the "*Guidelines on the assessment of the suitability of the key personnel"*.

The first set of Guidelines under consultation: i) provides criteria to assess, both at individual and collective level, the knowledge, competences, experiences of the board members as well as their good reputation, honesty, integrity and independence; ii) clarifies the concept of "sufficient time to fulfill the mandate" requested to board members; iii) specifies how the different aspects of diversity, education and professional path, age, geographical origin, gender, and so forth, shall be taken into account in the process for the identification of the candidates; iv) underlines the importance of induction and training to ensure the initial and on-going suitability of the members of the management body and requests to companies to provide adequate induction policies and to allocate sufficient resources to this purpose.

The second set of Guidelines proposes certain amendments to EBA guidelines concerning internal organization, adopted in September 2011, and completes the corporate governance provisions contained in CRD IV, further specifying tasks, responsibilities and organization of the board and control functions (compliance, risk management, internal audit) in the management of the business risks.

The evolution of the European directive on shareholders' rights

The proposal of revision to the EU Directive 2007/36 addressed certain aspects of the rights of listed companies' shareholders. A first set of measures concerns the improvement of the exercise of shareholders' rights and it is focused on: i) identification of shareholders; ii) provision of information to shareholders; iii) exercise of the rights by shareholders and iv) costs transparency. A second set of measures concerns the enhancement of the transparency of institutional investors, asset managers and proxy advisors to encourage the adoption of engagement policies and the relevant transparency regime. Particular attention has been put also to topics covered by the self-regulatory regime, such as directors' remuneration, and it is

proposed the introduction of a detailed related party transactions regulation, governed in Italy, firstly by the Corporate Governance Code and subsequently by Consob. The legislative *iter* for the approval of the directive has been particularly difficult; the "ordinary" legislative procedure has stopped during the trilogue step, dedicated to seeking a compromise between European Parliament and EU Council in the areas where differences in the amendments proposed by the EU institution against the original proposal of the Commission still exist.

Implementation of the EU directive on the publication of the non-financial information

In Italy the transposition of the European Directive 2014/95 on the publication of the non-financial information is underway. The directive provides, for certain kinds of companies, the obligation to specify in the financial statement non-financial information concerning environment, employees, respect of human rights, fight against bribery, to the extent necessary to understand the trend of the business, results, its situation and the impact of its business.

Such Directive requires, *inter alia*, to provide the public with information on policies concerning gender diversity in management and control bodies and, in case of not-adoption, to explain the relevant reasons. The decree draft, currently under examination by the competent commissions of the Italian Parliament, provides, to this purpose, a change in the content of the corporate governance report set forth by art. 123-bis Tuf. The amended lett. d) to the second paragraph of such article requires, in fact, to listed companies, excluding SMEs, to provide in the corporate governance report a description on the policies concerning diversity on the composition of the management and control bodies, specifying as parameters age, gender composition and education and professional path, as well as a description of the objectives, the implementation processes and results of such policies. However, the adoption of the mentioned policies is not mandatory: in case of not-adoption, the company shall provide a straightforward and complete explanation of such a choice.

II. REPORT ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The fourth report on the compliance with the Corporate Governance Code (hereinafter also the "Code") was drawn up by the Technical Secretariat of the Committee, evaluating data provided by multiple external sources[36]. The Report is divided into two sections: the first part (general) provides an overview on the application of certain recommendations of the Code, with particular regard to those aimed at the effective functioning of the board; the second part (special) is focused, this year, to the remuneration policy.

Most of evaluated information is provided by corporate governance reports[37], through which companies provide a detailed description of their corporate governance, their adherence to the Code and, if so, their current application of Code's recommendations (see. *Guiding principle III* of the Code) as well as cases of non-compliance with individual Code's recommendations and the related disclosure of the explanations (see. *Guiding principle IV* of the Code).

1. General Part: compliance with Corporate Governance Code

This part of the report provides an overview of the application of the Code, by focusing on the analysis of the application of some recommendations that have been deemed most relevant for the proper and effective functioning of the board. To this end, the report considers the information provided by corporate governance reports, published by all Italian companies

[36] For the purposes of drafting this section, the Committee has made use of the information contained in the studies that have been published or made available to the Technical Office. The study released by Assonime-Emittenti Titoli has provided the Committee with a detailed overview on the implementation of the main recommendations of the Code on the part of almost all Italian listed companies. See Assonime- Emittenti Titoli, *Corporate Governance in Italy: self-discipline, remuneration and comply-or-explain*, November 2016. Other studies have allowed a supplementary investigation, tends to be limited to larger companies, on specific topics related to corporate governance of listed companies (e.g. board diversity, self-assessment of the council, succession planning, remuneration) as well as an appreciation of the dynamics shareholders held in the year 2016. See Consob, 2016 *Report on corporate governance of listed Italian companies*, in press; Crisci & Partners, *Board evaluation - Comparative analysis, 2016 Report on the board evaluation practices for the performance of the 2015 financial year*; Ernst & Young, *The list voting for the management and supervisory bodies. Analysis of the statutes and the minutes of the meeting*, in January 2016; Georgeson, 2016 *Proxy Season Review*; Mercer, *Study on the remuneration of the boards of FTSE Mib companies*. Fourth Edition - 2016; Nedcommunity, *Effective governance outlook. The succession plans for executive directors*, no. 4, June 2016; Spencer Stuart, *Italy Board Index 2016*; The European House - Ambrosetti, *The observatory on the excellence of governance systems in Italy*, 2016 Edition.

[37] The report on corporate governance is published pursuant to art. 123-*bis* of the TUF that requires listed companies to provide information on whether membership of a corporate governance code of conduct promoted by management companies of regulated markets or by trade associations, giving reasons for any failure to adhere to one or several provisions, as well as the corporate governance practices actually applied by the company beyond the obligations established by laws or regulations. The minimum substance of the report includes: i) a series of workshops focusing on capital structure and on the issuer's ownership structure; ii) the rules governing the appointment and replacement of directors, if other legislative and regulatory provisions applicable as supplementary measures; iii) the main features of the systems of risk management and internal control systems in relation to the financial reporting process, including consolidated, as applicable; iv) the operational mechanism for the shareholders meetings; v) the composition and functioning of the administrative and control bodies and their committees.

listed on the MTA market[38], and evaluates the compliance with the Code and the related Committee's recommendations, considering, in the latter case, only companies adopting the Code.

Overall the analysis shows that quantity and quality of information provided by companies is progressively improving. In most cases, companies describe their governance model in an effective manner, both in case of compliance with Code's recommendations and in case of their complete or partial non-compliance.

The compliance with many Code's recommendations is substantially complete.

Non-compliance cases are generally clearly shown to investors, allowing them to assess the consequences of such company's decision and to draw the most suitable conclusion, both in terms of trading and engagement purposes.

On one hand, the increase of transparency and, on the other hand, the introduction of new Code's recommendations may contribute to the disclosure of new areas of possible improvement.

The application of the Code is still partial in relation to few recommendations regarding, for example, the establishment of a nomination committee, the pre-meeting information, the board evaluation process and the meeting of independent directors.

In some cases of non-compliance, the explanation seems to be improvable: e.g. non-compliance cases regarding the content of the remuneration policy. On this point, even considering the physiological diversity of different remuneration policies, such non-compliance cases highlight the importance of a clear and transparent board's guideline on such issues, especially for severance payments.

Despite the persistence of areas of further improvement both in case of information provided on the compliance (comply) and in that of non-compliance (explain), the analyses on Italian corporate governance, which were considered for the preparation of this report, show a progressive alignment of Italian listed companies' models and practices to investor expectations.[39]

A sign of such positive development is the significant increase of institutional investors' participation at the GM, which worked also as an important incentive for companies to improve their governance structure. The weight of institutional investors in the general

[38] The sample described matches to the one used by Assonime-Emittenti Titoli: 227 companies listed on MTA at the 31 December 2015, whose reports were available to July 15, 2016. For more details on the composition, see Assonime-Emittenti Titoli, Appendix.

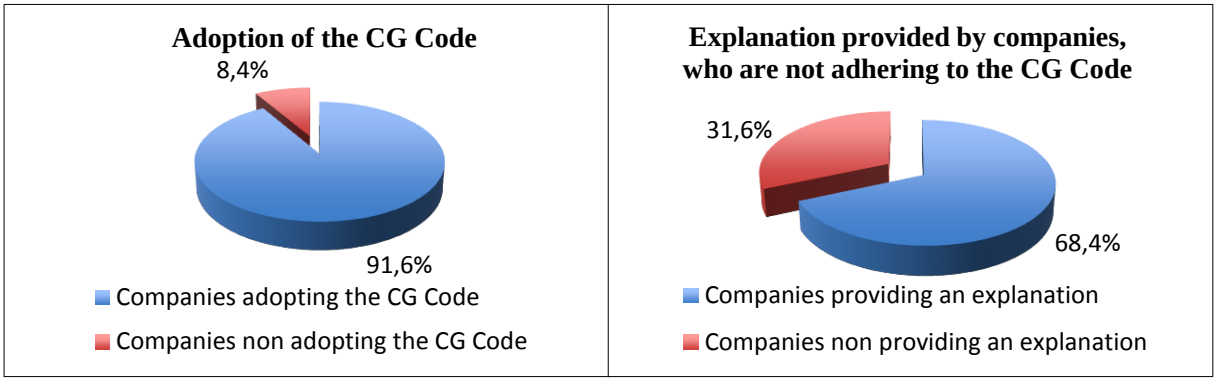
[39] On the topic see also Consob and TEH-Ambrosetti, p. 48.

meetings of medium-large companies has increased from 10% in 2012 to over 20% in 2016[40]. At the same time is also increased the degree of consensus expressed by such investors on the shareholder resolutions: in medium-large companies, the number of proposals that received a about 10% of negative votes (which is, on average, the majority of institutional investors that participate to a GM) is almost halved if compared to 2014[41].

Moreover, on international level[42], Italian companies show some differences such as the under-representation on the board of independent and foreign directors, a less common identification of an age limit for board members and a higher number of positions held by directors in listed companies.

1.1 Current application of the Code

Almost all the Italian listed companies have formally declared to adopt the Corporate Governance Code[43]; the number of companies that announced explicitly not to adopt the last edition of the Code is stable over time (8% of the listed companies). Companies declaring the adoption of previous edition of the Code are decreasing over time (4 in 2015, while 2 in 2016). A limited number of companies, stable over years (12 cases)[44], announced explicitly not to adopt the Code, providing however information on its corporate governance model. The decision not to adopt the Code is generally explained in relation to the company's structure and size or to the ownership structure.



Source: Assonime-Emittenti Titoli 2016, Fig. 56

[40] See Consob, cit., p. e Georgeson, cit., p.

[41] See Georgeson, p.

[42] See Spencer Stuart, p. 12.

[43] 208 companies, i.e. 92% of the 227 listed companies on December 31st, 2015, which report were available on July 15, 2016 (See Assonime-Emittenti Titoli, Tab. 1).

[44] There were 16 in 2015, 17 in 2014 and 16 2013. See Assonime-Emittenti Titoli, Tab. 1.

In its last report, the Committee required issuers to state explicitly in their corporate governance report the adoption of the latest edition of the Code, explaining that the declaration of adherence to previous editions of the Code would be considered as a non-adoption.

In this light, the Committee appreciates companies' transparent information about their decision of adopting and not adopting the Code, revealing the consolidation of a mature approach to self-regulation. Code's recommendations are, in fact, standards of best practice, to be followed in order to define the best issuer's organizational structure and not minimum legal requirements that must be met; therefore, even in case of compliance, the Committee calls upon issuers to avoid a mere formal conformity with Code's recommendations and favour a transparent and substantial evaluation of best practices thereof.

1.2. The composition of the board of directors

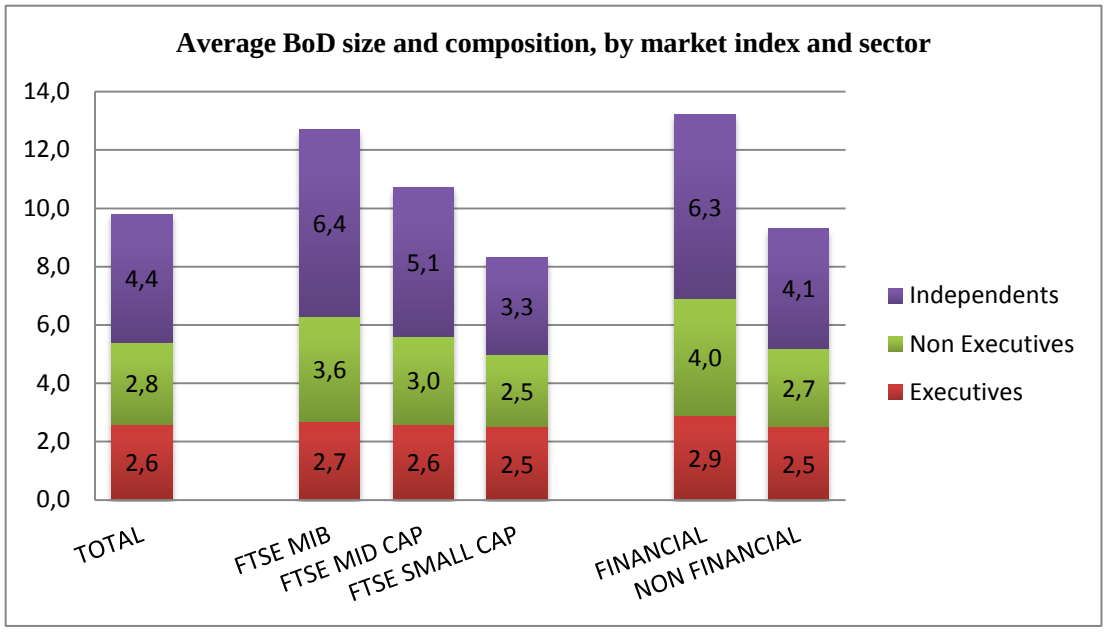
By defining the structure of the board of directors, the Corporate Governance Code recommends a board made-up of executive and non-executive directors (*principle* 2.P.1.) and an adequate number of non-executive directors being independent (*principle* 3.P.1.).

As to the disclosure of such information, the *criterion* 1.C.1. lett. i) requires the board of directors to provide in the corporate governance report, *inter alia*, information on its composition, individual information about each director, in relation to the role (executive, non-executive, independent), the position held within the board (for example, Chairman or Chief Executive Officer), its main professional skills and term of office.

In the 2015 Report, the Committee, although observing a good compliance rate with Code's recommendations regarding the composition of the board, advised issuers, who adhere to the Code, to ensure the existence and the suitability of the explanations given in the case of non-compliance.

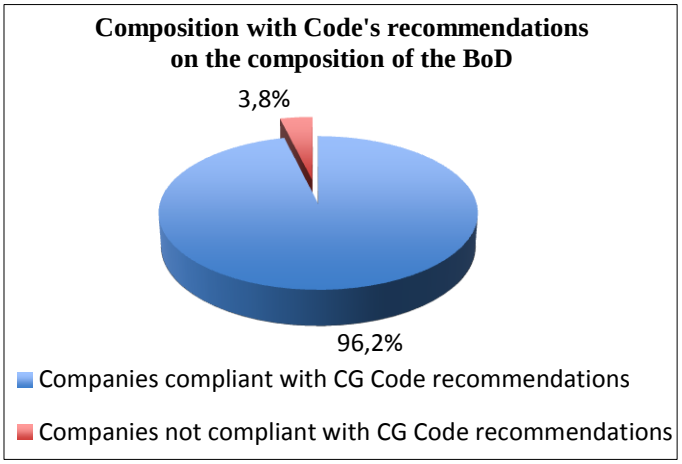
Considering data provided by the companies in their corporate governance reports, there has been, over the years, a progressive alignment with Code's recommendations concerning the composition of the board[45].

[45] The considerable number of boards of Italian listed companies appears broadly in line with international averages. See Spencer Stuart, p. 12.



Source: Assonime-Emittenti Titoli 2016

It is uncommon that companies do not follow the recommendations of the Code regarding the composition of the Board; however, in half of the non-compliance cases the report does not provide any explanation thereof.[46]



Source: Assonime-Emittenti Titoli 2016

In general, boards of Italian listed companies reveal a balanced allocation of directors belonging to the categories recommended by the Code; data vary considerably in relation to company's size and sector. Having regard to previous years, data show, in particular, a significant drop of the board size in the banking sector.[47] Among companies having at least one executive director on their board, we identified 173 companies with a Chief Executive Officer (hereinafter also only "CEO"): such role is usually identified, explicitly, by companies themselves, while in

[46] It is 4 to 8 companies that adhere to the Code and does not have a Board of Directors in line with the recommendations of the Code. The data are substantially stable as compared to 2015. See Assonime-Emittenti Titoli, Tab. 50.

[47] The size of the board varies from an average of 8.4 directors in the Small Cap to an average of 12.7 in the FTSE Mib. In the financial sector, there was an average of 14.3, compared to 9.3 in the non-financial; the slight decrease of the size of the board in the financial sector is determined mainly by the reduction of the board in banks. See Assonime-Emittenti Titoli, Tab. 11.

some other cases the information is less clear; in some other cases, companies identify more than one CEO. Having regard to previous years, there is a slight improvement in the explicit identification of the Chief Executive Officer, especially in the financial sector (from 67% in 2015 to 78% in 2016)[48].

The Committee recommends issuers to ensure the suitability and the completeness of the information regarding each component of the board, as recommended explicitly by the Code, having particular regard to the identification of the chief executive officer (CEO), which is necessary, among other things, for the effective compliance with other Code's recommendations (e.g. appointment of a LID).

With regard to gender diversity in management and supervisory bodies, following the introduction of Law No. 120 of 12 July 2011[49], there has been a progressive increase in the number of women in management and control bodies of listed Italian companies. Considering that the law applies only to companies whose bodies were subject to renewal after the 12 August 2012 and that the board usually has a three-year-long mandate, the law will find a gradual application.

At the end of 2015, all companies had at least one renewal under the new rule; therefore, the first term of the law is expired (1/5 of women directors) and now will enter into force more stringent requirements for the second and third mandate (1/3 of women directors).

The percentage of women resulting in the end of the last shareholders' meeting season is equal to about 30%, in constant and progressive increase if compared to previous years.[50]

Female representation on boards of listed companies (data updated to the end of June 2016)

	female directorship[1]		diverse-board companies[2]	
	no.	*weight on total number of directorships*	no.	*weight on total number of companies*
2008	170	*5.9*	126	*43.8*
2009	173	*6.3*	129	*46.4*
2010	182	*6.8*	133	*49.6*
2011	193	*7.4*	135	*51.7*
2012	288	*11.6*	169	*66.8*
2013	421	*17.8*	202	*83.5*

[48] See Assonime-Emittenti Titoli, Tab. 2.

[49] L. 120/2011 requires the presence of the "underrepresented" in the management and control bodies of listed companies to the minimum extent of at least one fifth of the members (rounded up) within the first term, and at least one-third over the next two mandates.

[50] See Consob 2016, Tab. 2.13, which contains data for all listed companies, as of the end of June 2016. The companies have at least one woman in their corporate bodies representing almost the whole of the Stock Exchange list (99, 1%), a significant and steady increase compared to 66.8% in 2012 and 43.8% in 2008.

2014	521	*22.7*	217	*91.9*
2015	622	*27.6*	230	*98.3*
2016	687	*30.5*	228	*99.1*

Source: Consob, Tab. 2.13. *Data on corporate boards of Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange. Companies under liquidation at the reference date are excluded.* [1] *Figures refer to the board seats held by women.* [2] *Diverse-board companies are firms where at least one female director sits on the board.*

The average number of women sitting on the board is higher in larger companies and in those belonging to the financial sector[51]. In line with the European panorama[52], the increase of the women on boards did not change the qualification trend of female directors: in the 68% of cases they are independent directors, while the number of women holding the role of the CEO or Chairmen of the board is still limited. [53]

Position held by the female gender directors (data updated to the end of June 2016)

	CEO		**chairman / honorary chairman**		**deputy chairman / executive committee**		**independent director[3]**		**minority director**	
	no. of directors	*weight[2]*	no. of directors	*weight[2]*	no. of directors	*weight[2]*	no. of directors	*weight[2]*	no. of directors	*weight[2]*
2013	13	*3.2*	10	*2.5*	33	*8.1*	244	*59.8*	20	*4.9*
2014	16	*3.1*	16	*3.1*	32	*6.1*	333	*64.0*	37	*7.1*
2015	16	*2.6*	17	*2.7*	36	*5.8*	424	*68.3*	42	*6.8*
2016	17	*2.5*	21	*3.1*	40	*5.8*	471	*68.6*	49	*7.1*

Source: Consob, Tab. 2.17. *Data on corporate boards of Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange. Companies under liquidation at the reference date are excluded.* [1] *Figures refer to the board seats held by women.* [2] *Weight on total number of directorships.* [3] *Number of independent directors meeting the independence criteria set forth by the Corporate Governance Code or, if no director meets the criteria of the Code, in the Consolidated Finance Law.*

1.3. Independent directors

As to the number of independent directors, principle 3.P.1. recommends an "adequate" number of non-executive directors to be independent, while criterion 3.C.3. specifies that the

51 See Consob 2016, Tab. 2.15, which shows that the average number of women directors is equal to 4.1 in FTSE Mib, 3.6 in the Mid Cap 2.6 in the Star and 2.7 in the other. As for the business sector, the average number of women on the board is equal to 3.5 in the financial sector compared to 2.8 in the industrial sector and 3 in the service industry.

52 See Spencer Stuart, p. 12. With reference to Italian companies (the surveyed companies account for half of the Italian Stock Exchange SpA), the study shows the difference between women and men in terms of managerial experience (respectively 40% and 51%) and professional (respectively 40% vs 23%), which show a low managerial experience of women with respect to their more highly professional one (legal and economic). See Id., p. 31.

53 See Consob 2015, Tab. 2.17. With specific reference to the corporate bodies composition in the FTSE Mib see also Mercer, cit., P. 18, which shows that women account for 29% of members of BoD, 18% of members of the supervisory boards and 33% of statutory auditors. With regard to BoD's composition, women represent only the 3% of the executive positions.

adequacy of the number (and professional skills) of the independent directors shall be assessed in relation to the size of the board and the company's industry. In order to ease company's assessment about the proper number of independent directors, the same criterion 3.C.3. recommends issuers of the FTSE Mib to have a board made up by of at least one-third of independent directors (rounded down to the nearest unit), stating that, in any case, in all companies, independents directors shall be not less than two.

As to the board composition in the FTSE Mib companies, the requirement of one-third of independent board members was subjected to the transitional regime provided by *guiding principle IX* of the Code (entry into force at the first renewal of the board of directors following the end of the financial year beginning in 2012); therefore, such regime has expired with 2015 board renewals and, consequently, by 2016 the recommendation regarding FTSE Mib companies finds full application.

An analysis of corporate governance reports shows an almost complete compliance with the above-mentioned recommendations of the Code. At the end of 2015 almost all the companies in the FTSE Mib had a board of directors (or supervisory board) with at least one third of independents directors[54]; a large number of companies (96%) are in line with the recommendation to have, in any case, at least two independent directors[55].

As to the quality of the information provided by listed companies in relation to the concrete application of the independence criteria (set by the Code), it should be noted that independence criteria set by the Code are merely illustrative and not exhaustive; listed companies are required to apply such requirements "having regard more to the substance than to the form". As stated in the comment to art. 3 of the Code, each listed company can assess the status of independence in light of the criteria that are, in whole or in part, different from the ones set by the Code, "providing adequate and explicative information to the public".

On this point, the Committee observes that non-compliance cases with one or more independence criteria set by the Code are quite rare[56]. In most cases, companies decided not to apply the criterion regarding the 9-years-long mandate (3.C.1. e), combined sometimes with other criteria. The non-compliance with an independence requirement is almost always explained and is generally linked to the opportunity to focus on the skills earned over time by individual directors or to avoid a mechanical application of such criteria.

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[54] 34 companies out 35, equal to 97% of the total (see Assonime-Emittenti Titoli, p. 50), comply with the requirement of the composition. The company is not compliant provides an explanation of the non-alignment with the Code.

[55] See Assonime-Emittenti Titoli, Tab. 50.

[56] 14 companies have pledged to disapply one or more criteria of independence required by the Code (equal to 6% of the total; see Assonime-Emittenti Titoli, Tab. 52). Data refer only to companies that have adhered to Corporate Governance Code.

On the contrary, some companies decided to apply Code's independence criteria, but have assessed, in concrete, the independence of the individual director "having regard more to the substance than to the form" (principle set forth by criterion 3.C.1. of the Code): this is the case for 35 companies (*vs.* 39 of 2015), who always (*vs*. 97% in 2015 and 85% in 2014) provided a due explanation regarding the concrete case, disclosing specific information about the individual director concerned (and/or statutory auditor).[57]

Considering the importance of independent directors in the board's decision-making process, the Committee observes the opportunity to provide in the corporate governance report adequate information and explanations about all the aspects that have been taken into account by the board in case of compliance, non-compliance as well as in case of substantial application of the criteria set by the Code.

1.4. Competence and professional skills of the directors

As stated in the comment to Art. 1 of the Code, the board should ensure, within the evaluation process, the appropriate board composition not only in terms of directors' qualification (executive, non-executive, independent) but also with regard to their professional and managerial skills[58], including international experience[59], considering also the possible beneficial effects of a directors' diversity in terms of gender, age and time in office.

Criterion 1.C.1. h) of the Code recommends the expiring board to identify, taking into account the outcome of its self-evaluation, the professional skills deemed appropriate for an effective board composition. The definition of such guidelines is available only in one quarter of companies whose board has been renewed in 2016 and 2015.[60] The compliance rate is still low, even if we consider only larger companies. [61]

The low level of compliance was already highlighted in the Report 2015, in which the Committee invited the boards that are about to expire to state, having regard to the outcome of

[57] Data refer only to companies that have adhered to Corporate Governance Code. See Assonime-Emittenti Titoli, Tab. 52.

[58] The management background is the most widespread among the directors of Italian listed companies (50% of cases, while following professionals (29%) and entrepreneurs (18%). Professional experience is basically linked to legal and economic profiles, while the 'entrepreneurial experience is generally linked to the ownership structure of the company (founder and individuals related to him by degree of relationship). See Spencer Stuart, p. 29.

[59] Almost a third of the FTSE Mib directors is to have an international experience or be of foreign origin. Data TEH - Ambrosetti, p. 46.

[60] Cfr. Assonime-Emittenti Titoli, cit., Tab. 6.

[61] See Crisci&Partners, p. 25, which found that in a sample of 10 companies with the highest capitalization which were to renew the board in 2016, only four boards have expressed a guideline to shareholders on its optimal composition, as recommended by the Code.

the board evaluation, the guidelines on managerial and professional figures whose presence on the board would be considered appropriate.

The Committee recommends companies to hold the board responsible, eventually with the support of the nomination committee, for the identification of the professional skills deemed appropriate for ensuring its optimal composition.

In addition, regarding the comment to Art. 5, which emphasizes the role of the nomination committee in cases where the board itself submits a slate for its renewal, it should be noted that, among FTSE Mib companies, 11 companies' bylaws provide such option (slate submitted by the board), while in 3 companies the board effectively submitted a slate of candidates for its renewal with the cooperation of the nomination committee.[62]

1.5. The board internal committees

The Code recommends listed companies to establish, within the board of directors, specific committees with preliminary and advisory tasks in fields that are more vulnerable to possible conflicts of interests; in particular, the Code recommends to establish a nomination committee (principle 5.P.1.), a remuneration committee (principle 6.P.3.) and a control and risk committee (principle 7.P.3.).

As to committees' composition, the Code recommends, for the nomination committee, a majority of independent directors, while the remuneration and control and risk committee shall are made-up of all independent directors or, alternatively, by all non-executive, in majority independent directors, with an independent chairman.

As to the information to be provided with regard to such committees, criterion 4.C.1. g) recommends listed companies, adopting the Code, to provide in their corporate governance reports an adequate disclosure about the establishment and the composition of board committees, the tasks they are entrusted with as well as their activities carried out during the relevant financial year, providing detailed information about the number and the length of their meetings and the attendance of individual committee's members.

The nomination committee

The nomination committee has been established by half of the companies (121 out of 208) and is frequently (in 75 cases) unified with the remuneration committee.[63]

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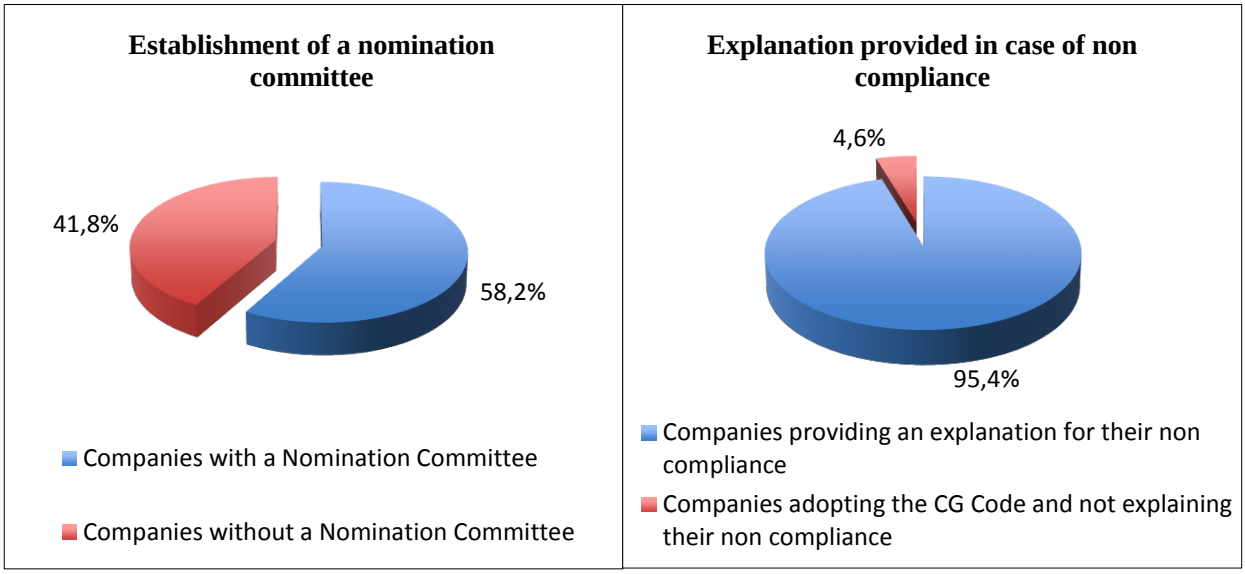
[62] See Ernst&Young, p. 16.

[63] Considering the total sample includes companies that do not adhere to the latest edition of the Code, we may observe that came to a total 124 established committees for the nomination; three companies that do not adhere to the latest edition of the Code established, then, on a voluntary basis, a nomination committee. See Assonime-Emittenti Titoli, Tab. 18.

Almost all companies who adhere to the Code and decided not to establish a nomination committee provide an explanation of their choice (95%)[64]. The explanations refer, frequently, to the current legal framework, having particular regard to the so-called "slate voting system"; some companies also refer to the proactive role played by the controlling shareholder, to company's ownership structure or to the fact that, in the past, the process for the identification of candidates has been managed smoothly. Some companies declare the application of the possibility offered by the criterion 4.C.2., which allow companies, under certain conditions, not to establish the committee and to confer its tasks to the whole board.



Source: Assonime-Emittenti Titoli 2016

The Committee observes that, in 46 companies that have established a "stand-alone" nomination committee (i.e. not merged with other committees), its composition is almost always in line with the recommendations of the Code (majority of independent directors) [65].

In 2015, the Committee assessed positively the high percentage of companies providing an explanation in cases of non-compliance with the recommendation regarding the establishment of a nomination committee.

Upholding this consideration, the Committee highlights the significant advisory role to be played by the nomination committee in the definition of the optimal composition of the board; in particular, the Committee underlines that, even if such figure stems from Anglo-Saxon governance models and ownership structures, it can play a key role also in companies with a more concentrated ownership structure.

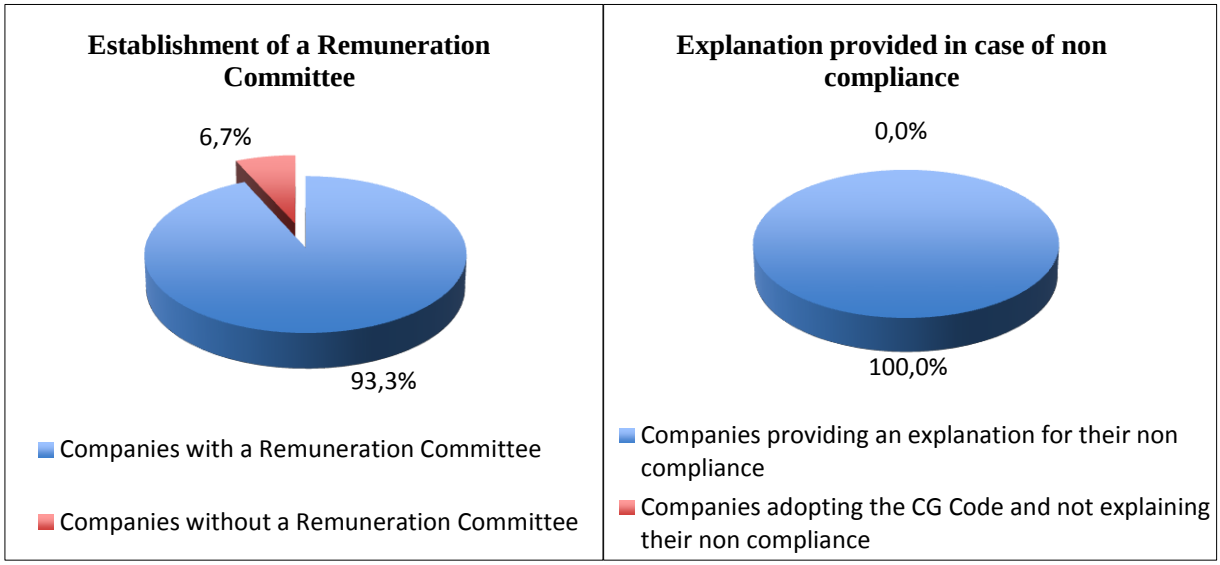
[64] The data relates only to companies that adhere to the Code. See Assonime-Emittenti Titoli, Tab. 18.

[65] It is 43 companies over 46 that have adhered to Code and have set up a committee for self-nominations; in companies, which have established a unified Committee, it has a composition in line with the Code in 87% of cases. The data relates only to companies that adhere to the Code. See. Assonime-Emittenti Titoli, Tab. 53.

Indeed, the Code does not entrust the nomination committee with the task of submitting a slate of candidates for the renewal of the board of directors.

The remuneration committee

The remuneration committee has been established by the 93% of the companies that adopt the Code (194 over 208)[66].



Source: Assonime-Emittenti Titoli 2016

All 14 companies, who adopt the Code and decided not to establish the committee, provided also an explanation of their decision (in 2015, the compliance rate was about 87%)[67]. The explanation often refers to the size of the company and the need of a simplification of the organizational structures.[68]

In 90% of cases, the composition of the remuneration committee is in line with Code's recommendations. The compliance rate is constantly increasing: it was 87% of cases in 2015

[66] The remuneration committee was set up by 202, if one includes the companies that have not adopted the Code; among companies that do not adhere to the latest edition of the Code, as many as 8 companies set up on a voluntary basis, a remuneration committee. The average number of members is three. In 13 companies, all of which fall in this instance the board consists of no more than 8 members (see Application criterion 4.C.1. Letter. a)), the Committee consists of two directors only. See Assonime-Emittenti Titoli, Tab. 20.

[67] Data refer only to companies that have adhered to the latest Corporate Governance Code. See Assonime-Emittenti Titoli, Tab. 54.

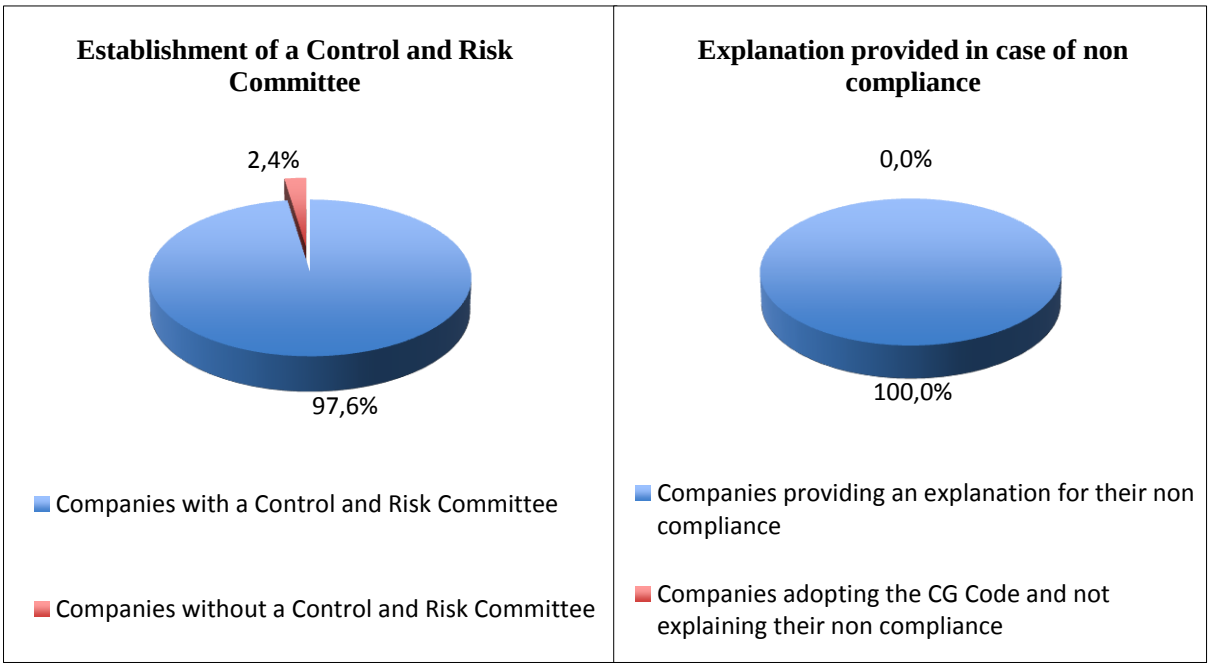
[68] Some companies motivate the non-establishment of the Committee stating that the fee is determined by the shareholders at the time of appointment; a company justifies the failure to establish the existence of constraints regarding remuneration imposed under special regulations. Some companies have invested the function that the entire Board of Directors, applying the option provided by the application criterion 4.C.2. of the Code; others justify the failure to establish with the allocation of functions to the same committee of the parent company, or by referring to the role, number and / or credibility of the independent directors.

and 82% in 2014.[69] All 15 companies, who adopt the Code and have a committee with a composition that does not comply with Code recommendations, provided an explanation.

The control and risk committee

The control and risk committee has been established by most of Italian listed companies (almost 97% of all companies adopting the Code; i.e. 203 of 208).[70]

All the five companies, who adopt the Code and have not set up a committee, provided an explanation (same as in 2015). Once more, the explanation often refers to the limited size of the company or to the need of simplifying the organizational needs of the issuer and / or states that its tasks have been conferred to company's executives or control body.



Source: Assonime-Emittenti Titoli 2016

In 92% of cases[71], the composition of the control and risk committee is in line with the recommendations of the Code; data show an increase if compared to year 2015 (90%) and 2014 (89%). All 17 companies, who adopt the Code and have a committee that is not compliant with Code recommendations, provide an explanation.

[69] Data refer only to companies that have adhered to the latest Corporate Governance Code. See Assonime-Emittenti Titoli, Tab. 54.

[70] If one includes the companies that have not adopted the Code, control and risk committee has been set up by a total of 211 (93% of total): it is expected, therefore, also by 8 companies that do not adhere to the last edition of the Code. See Assonime-Emittenti Titoli, Tab. 23. The number of components is almost always equal to or greater than 3; in 19 cases the control and risk committee consists of 2 directors.

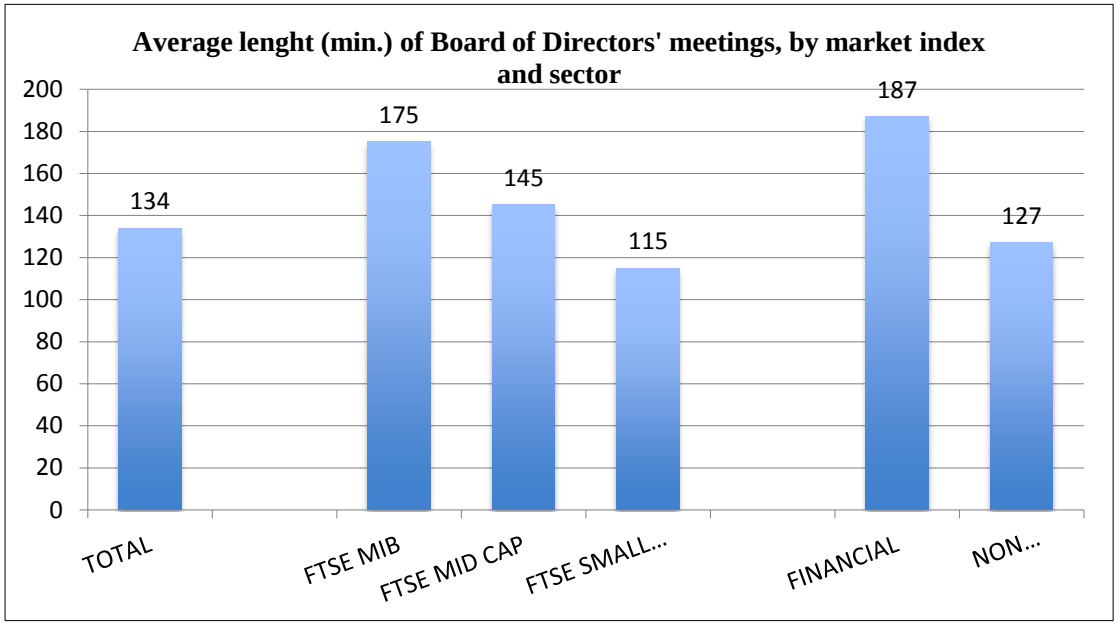
[71] In 186 companies, considered on the basis of the sample of the only companies that adhere to the latest edition of the Code (See Assonime-Emittenti Titoli, p. 136).

The Committee observes positively the degree of compliance achieved by the companies regarding the establishment and composition of the remuneration and controls and risks committees as well as the increased quality of the explanations provided in cases of non-compliance.

1.6. BoD's meetings and directors' participation

Information about the frequency of board of directors' meetings is always available: the average number is 10.6 (an increase compared to 10.1 in 2015), and varies a lot depending on the sector and on the firm size. The increase in the number of meetings is constant and particularly significant in the largest companies (in FTSE Mib companies, the frequency increased overall by 20% if compared to 2012).

Moreover, the Code requires companies to disclose in their corporate governance reports also the average length of board meetings. Information on this point is available for almost all companies [72]. The average length of meetings is about 134 minutes.

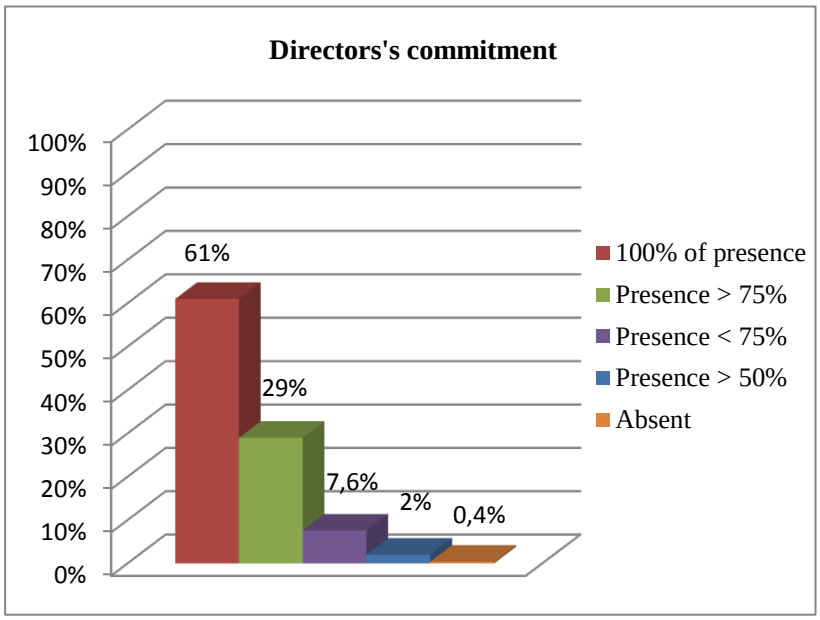


Source: Assonime-Emittenti Titoli 2016

The information on the effective participation of the individual directors is available for almost all the directors (99%, up slightly from 97% in 2015).

[72] See Assonime-Emittenti Titoli, Tab. 2, which indicates that this information is provided by 216 companies (95% of the total); since substantially stable compared to 2015. All mentioned data refer within the sample analyzed by Assonime-Emittenti Titoli. Among the companies that adhere to the code, it still has the presence of some companies (3% of the members) do not provide information or explanations.

The average attendance rate was 92%. 10% of the directors have attended less than 75%[73] of the meetings that were held during the reference year; slightly down compared to previous years (12% in 2015, 14% in 2011). Although little in number, data show still some cases of significant absenteeism: 54 directors attended less than half of the meetings.



Source: Assonime-Emittenti Titoli 2016

The Committee invites issuers to compare their own attendance to board meetings with the average data provided by this Report, paying attention to extreme cases of considerably lower or higher values than the average ones; such information as well as cases of significant (<50%) or at least relevant (<75%) absenteeism, should be considered carefully during the board self-assessment, also in light of its future renewal.

1.7. Meetings of independent directors

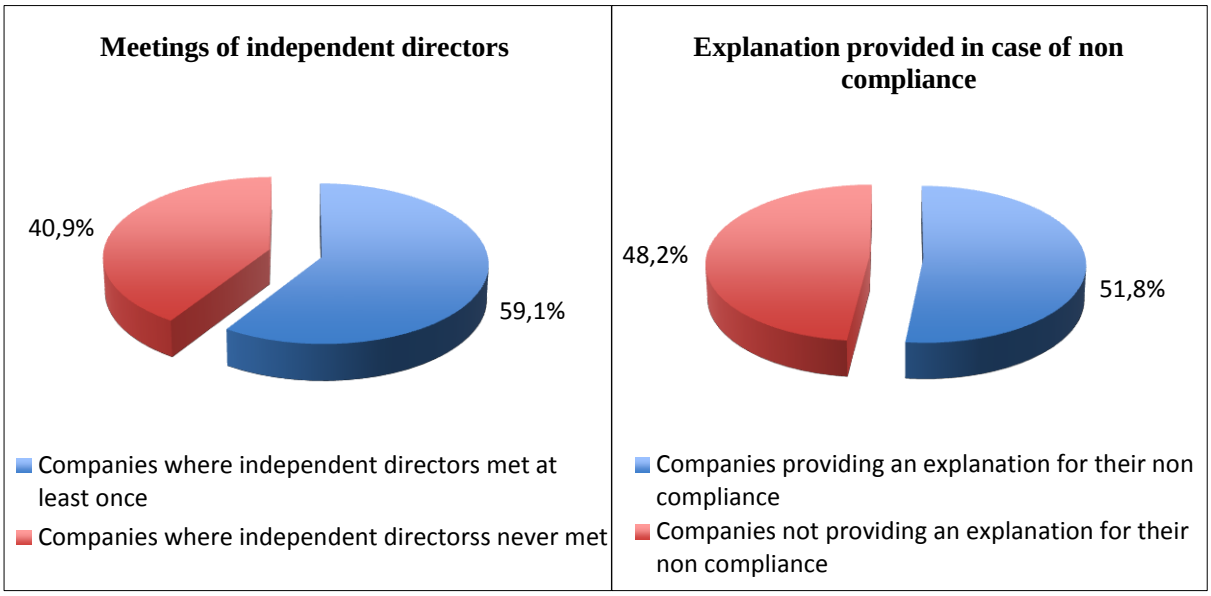
The Code recommends that at least once a year, independent directors shall meet, without other board members, to discuss issues concerning the functioning of the board or company's management. As specified in the revision of the 2015 Code (see comment to Art. 3), such meetings shall be held as *ad hoc* meetings, representing different and separate meetings than the one held within board committees.

[73] The 75% threshold is frequently used internationally for voting decisions by investors (reappointment of directors).

According to 2016 governance reports, more than half of the companies, who have at least two independent board members, provide information about the effective meeting of independent directors (59%, down from the 64% in 2015[74]).

The level of compliance varies especially regarding company's size; in particular, it rises to 75% in FTSE Mib companies (slightly in increase if compared to the 74% in 2015). Moreover, the compliance rate with such Code recommendation is also higher in companies where a LID has been appointed (66% of cases).[75]

Half of the cases of non-compliance are explained in company's corporate governance report, as recommended by the Code; also in this case, the explanation is more frequent among larger companies.[76]



Source: Assonime-Emittenti Titoli 2016

The Committee observes that the compliance rate with the recommendation regarding the meeting of independent directors as well as the quality of the information provided in the cases of non-compliance do not show significant improvements over time. Even in this case, both non-compliance cases and the lack of explanations could be further assessed during the board self-evaluation.

[74] The data refers only to companies who adopt the latest edition of the Code; moreover, one company, who is not adopting the Code, disclosed, on a purely voluntary basis, that a meeting of sole independent directors have taken place. See Assonime-Emittenti Titoli, Tab. 14 and Tab. 51.

[75] Data refer only to companies adopting the Code. See Assonime-Emittenti Titoli, Tab. 51.

[76] This is 75% of the companies belonging to the FTSE Mib who adopt the Code. See Assonime-Emittenti Titoli, Tab. 51.

1.8. The flow of pre-meeting information

Criterion 1.C.5. of the Code recommends the Chairman of the board to ensure that the information related to the board meeting is made available in a timely manner and requires the company to provide information about the promptness and completeness of such pre-meeting information. In particular, according to the Code, issuers shall provide, in their corporate governance report, detailed information about the prior notice usually deemed adequate, specifying whether such term has been usually met.

The importance of adequate information before and during the board meeting have been already mentioned by the Committee in its previous Annual Report[77]. Furthermore, in light of the recommendation provided in the 2013 Annual Report, in 2014 the Committee introduced a specific amendment to the *comment* to art. 1 of the Code, in order strengthen the importance of the Chairman's role, who shall ensure that, in specific cases, where it was not possible to provide pre-meeting information with adequate prior notice, adequate and timely sessions take place during the board meeting.

In 2015, although the high quality of information provided *ex* ante on the pre-meeting information, the Committee evidenced that there was still room for significant improvements with regard to the information to be provided *ex post* on the effective fairness of the prior notice and, in particular, on the compliance with the deadline, which has been already identified as appropriate *ex ante*, calling upon issuers to improve the compliance with such Code's recommendations and to provide adequate information in their corporate governance reports.

According to 2016 corporate governance reports, the disclosure to be given *ex ante* about the flow of pre-meeting information was identified in 97% of the companies, who adopt the Code.[78]

The 73% of the companies adopting the Code and providing information *ex ante*, disclosed also the prior notice deemed adequate for the pre-meeting information (*vs*. 71% in 2015). The information is supplied with higher frequency by larger companies (*e.g.* 77% of FTSE Mib) and in the financial sector (78% of cases; up to 81% in banks).[79]

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[77] See Committee for Corporate Governance, Annual Report 2013, pp. 10-11, and Annual Report 2014, pp. 16-17.

[78] If we consider the whole sample, including companies that do not adhere to the latest edition of the Code, this information is provided by 217 companies (96% of the total), in constant increase over previous years (95% in 2015, 92% in 2014 and 90% in 2013). See Assonime-Emittenti Titoli, Tab. 2.

[79] Data refer only to companies that adhere to the Code. Percentages may vary slightly if we consider the whole sample which also includes "non-members". See Assonime-Emittenti Titoli, Tab. 2.

For what concern the information that has to be given *ex post*, about the effective promptness and completeness of the pre-meeting information flaw and, in particular, about the compliance with the prior notice previously identified as adequate, only 65% of issuers state that the prior notice has been met. The compliance rate in relation to the *ex post* information required by Code is low but increasing over time; indeed, it shows a clear increase if compared to the 51% in 2015 and the 46% in 2014.

The compliance rate is still law in relation to the role of the Chairman of the board: only 34% of companies reported that, in specific cases where it is not possible to provide the necessary information with an adequate prior notice, the Chairman of the board ensures that adequate and timely sessions take place during the board meeting. [80] The compliance with such specific recommendation is higher among larger companies (46% in FTSE Mib) and in the financial sector (43%).[81]

Despite some significant improvements that have been registered over time, the Committee reaffirms the opportunity to improve the quality of the disclosure about the pre-meeting information, with regard both to the definition of the prior notice and to its effective compliance. Indeed, the promptness and the completeness of the pre-meeting information represents an essential condition for the knowledgeable conduct of directors and, therefore, for the effective functioning of the board.

The Committee also calls for a better consideration of the comments to Art. 1 of the Code about the role of the Chairman in specific circumstances where it is not possible to provide adequate pre-meeting information with a prior notice.

1.9. The effective attendance of managers to board meetings

Criterion 1.C.6. of the Code envisages the possibility for the Chairman of the board to require managing directors, also upon request of one or more board members, to ensure managers' attendance to board meetings, in order to provide, in relation to their specific competences, appropriate supplemental information on the items of the board agenda. With the revision o the Code occurred in July 2015, the Committee took the opportunity to underline the importance of an adequate disclosure, in the corporate governance report, of the information regarding managers' effective attendance to board meetings.

In the same way, Committee's 2015 Report highlighted those recent amendments to the Code, demanding companies to improve the quality of information provided in the corporate

[80] The data refer only to companies that adhere to the Code; the share is 31% if we consider the whole sample which also includes "non-member." See Assonime-Emittenti Titoli, Tab. 2.

[81] The data refer only to companies that adhere to the Code. See Assonime-Emittenti Titoli, Tab. 2.

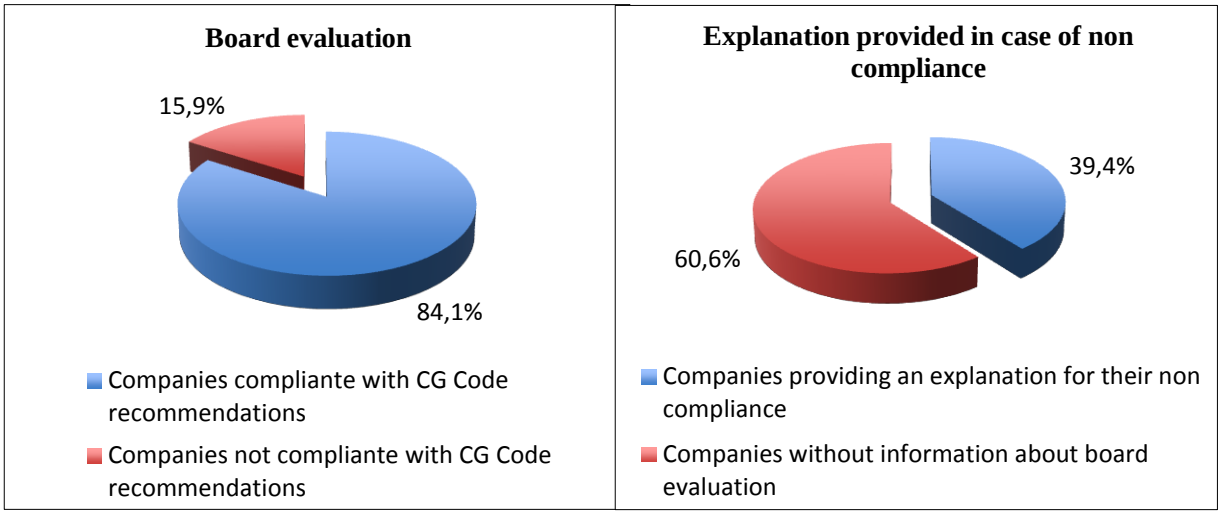
governance report. According to 2016 corporate governance reports, only 62% of the companies adopting the Code provide clear information about the effective managers' attendance to board meetings.[82]

Data about the compliance with the Code's recommendation regarding the effective managers' participation to board meetings does not show significant improvement; consequently, the Committee invites issuers to assess the compliance with such Code's recommendation during the board self-evaluation.

1.10. The board evaluation

The Corporate Governance Code recommends companies to perform, at least annually, the evaluation of the board and its committees and to define, starting from the results of such assessment, the guidance for shareholders about the professional skills deemed appropriate for their composition.

Corporate governance reports show a picture that is basically stable over time. Also this year, the majority of the companies adopting the Code (i.e. 84% of the aggregate) disclose to have performed the self-evaluation of the board.[83] Information is provided more frequently by larger companies (88% of FTSE Mib) and in the financial sector (100%).[84]



Source: Assonime-Emittenti Titoli 2016

[82] The data appears in slight decline compared to 2015 (65%). See Assonime-Emittenti Titoli, Tab. 2.

[83] Referring to all companies (also those not adopting the last edition of the Code), there are 182 companies (i.e. 80% of the aggregate) that have conducted the self-evaluation; therefore 7 companies not adopting the Code have anyway performed the board evaluation. See Assonime-Emittenti Titoli, Tab. 5.

[84] Data are referred to only companies adopting the Code. See Assonime-Emittenti Titoli, Tab. 5.

Among the remaining 33 companies adopting the CG Code but not performing the self-evaluation, 13 provide an explanation for their non-compliance.[85] On this point, the Committee has already drawn companies' attention, recommending them to give an appropriate disclosure of non-compliance cases. The Code does not recommend the disclosure of the results of the board evaluation; therefore, information on such point is quite rare.[86]

Companies adopting the Code do often disclose information about their board evaluation procedures (81% of the cases).[87] For the 25 companies with highest market capitalization, it has been observed that such activity mainly concerns the board, the decision-making process and, in some cases, also topics regarding corporate strategy and risk management.[88] The content of the board evaluation appears quite generic; this is particularly true with regard to the professional profiles deemed appropriate for future board members[89]. Among larger companies, data show a higher attention to the education and induction issues.[90]

As to the entity entrusted with the task of conduction the board evaluation, two third of companies identified an internal body or function (respectively, 32% the board committee, 8% the Chairman, 15% one or more directors, 22% one or more internal functions, such as the "legal & corporate affair" function). In the other cases companies appointed an external consultant.[91]

In 2014, the Committee amended art. 1 of the Code, in order to improve the quality of the information provided in case of appointment of an external consultant: to this end, the Code recommends issuers to identify the external consultant and to provide information about any other service provided by the same entity. Only 57% of the companies, who appointed an external consultant to perform the board evaluation process, provide information concerning other services performed by such consultant, while its identity is explicitly disclosed by 86%

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[85] See Assonime-Emittenti Titoli, Tab. 50.

[86] See Assonime-Emittenti Titoli, Tab. 5 and Crisci & Partners, p. 10.

[87] Contemplating also non-compliant companies, this percentage fall to 80%. See Assonime-Emittenti Titoli, Tab. 5.

[88] See Crisci & Partners, p.8, where it is found a substantial equilibrium among themes above mentioned, compared to a preference for risk management topics in the last year.

[89] See Crisci & Partners, p. 28, who suggest Italian companies to improve such guidelines, looking both to the competence and the experience of future BoD members.

[90] See Crisci & Partners, p. 11, that reports some examples of many big companies in the board evaluation theme: among the 25 higher market capitalization firms, effectively, 8 directors have pointed out educational programs as an useful instrument to improve the board, and other 5 members have recommended a reinforcement of these programs.

[91] Data are referred to only compliant companies. Some companies have appointed this charge to more than one subject and, therefore, they have been counted for each specified subject. See Assonime-Emittenti Titoli, Tab. 5.

of the companies.[92] The quality of information disclosed is substantially in line with those commented in previous Reports, where the Committee had drawn the attention of companies on such issue, recommending greater transparency.

According to the above-mentioned data, the Committee observes a high and constant application of the Code's recommendations regarding board evaluation. However, the improvement areas identified in previous Reports continue to persist; in particular, the compliance with the Code is still partial with regard to the explanation to be provided where no board evaluation has been performed and the compliance rate regarding the information to be disclosed about the other services provided by the external consultant, which are of great importance in order to ensure not only the transparency of the appointment of the consultant but also its independence toward the company.

1.11. The succession plans

C*riterion* 5.C.2 of the Corporate Governance Code recommends the board of directors to evaluate whether to adopt a plan for the succession of executive directors and to provide relevant information in the corporate governance report.

According to 2016 corporate governance reports, 185 companies[93] have evaluated whether to adopt a succession plan for executive directors, while only in 29 cases they are also declaring the existence of such plans.[94] Despite this dwindling number of plans, it is observed a positive trend over previous years (20 both in 2015 is in 2014), principally due to the financial sector, where the number of plans is nearly doubled (62%[95]) during last year. Information shows, anyway, a greater awareness of issuers about this point which might be due to a higher influence of stakeholders.[96]

However, the increase in plans does not match with an improvement of the quality of information provided on the structure of such plans, hoped for by the Committee in its 2015

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[92] See Assonime-Emittenti Titoli, Tab. 5. Information about other services provided by the consultant and its identity are disclosed more frequently by the 25 biggest companies (15 of these have appointed an external consultant; 10 of these - i.e. 80% - have also disclosed its independence). See Crisci & Partners, pp. 20-21.

[93] Contemplating also non-compliant companies, there are 194 companies disclosing this information. Therefore, evaluation about succession plans it was carried out by some firms not compliant with the last edition of the Code; in all these cases, however, it was not adopted a plan. See Assonime-Emittenti Titoli, Tab. 7.

[94] Plans are more frequent in FTSE Mib companies (27%, while another 33% is evaluating a plan). On the other hand, these plans result less recurring among Mid Caps (11%) and STAR (6%) companies. See TEH-Ambrosetti, p. 68.

[95] See Assonime-Emittenti Titoli, Tab. 7.

[96] See Nedcommunity, p. 22, where it is highlighted the essential role of independent directors to alert the board about the importance of succession plans, especially in terms of enterprise's competitiveness and stability.

Annual Report: the existence of specific and predetermined mechanisms in case of early directors replacement is disclosed in only half of cases (where a plan has been adopted); one third of those issuers identify the company's internal bodies that are in charge of setting the plan, although the Code explicitly recommends a role of the nomination committee (*criterion* 5.C.2) and wishes for a clear division of tasks.[97]

Where information is provided, the procedure is generally assigned to the nomination committee, together with other subjects such as the Chairman of the board.

The Committee evaluates positively the increase, even though marginal, of plans adopted by Italian listed companies. However, given the dwindling number of such plans, the Committee reminds issuers the importance of adequate and defined procedures for the succession of executive directors to ensure the stability and continuity of company's management and to enhance the outcomes of the board evaluation as well as the board guidance to shareholders about its optimal composition.

[97] See Assonime-Emittenti Titoli, Tab. 7.

2. Special part: remuneration's policy

Art. 6 of the Corporate Governance Code define best practice recommendations regarding the remuneration of all the board members. In particular, the policy that the board is required to establish, on proposal of the remuneration committee, should define the remuneration of the directors and executives with strategic responsibilities in order to attract, retain and motivate candidates with the professional skills that are required for an efficient management of the company (see principle 6.P.1.).

While defining the principles that should lead board's and remuneration committee's decisions, the Code stands out between the remuneration policy for the executives (executive directors and executives with strategic responsibilities) from the compensation regarding non-executive and independent members of the board.

As to executive directors, the Code recommends the establishment of a remuneration package, which shall align their interests with the priority objective of creating value for shareholders over the medium to long term (see principle 6.P.2., first paragraph); for non-executives, the compensation shall be proportional with the commitment required to each director, including their involvement in one or more board committees (see principle 6.P.2., second paragraph).

The Code defines some guidelines for the definition of the remuneration policy, identifying, with regard to the executives, the parameters to be followed both in the definition of the fixed and of the variable component of their remuneration packages, which must be properly balanced according to the strategic objectives of the risk management policy, considering company's sector and business features.

The fixed component should be sufficient to reward the director performance (when no variable components will be paid out; see. criterion 6.C.1., c), while the variable component should represent a significant part of the overall compensation but at the same time shall be paid out only in case of achievement of specific performance goals that shall be "defined *ex ante*, measurable and linked to the creation of shareholder value over the medium to long term" (see criterion 6.C.1., d). With regard to the variable component, the remuneration policy should define its cap as well as the deferral in time for the payment of its significant part (see criterion 6.C.1., b and e).

Companies should define a cap also to severance payment. For this purpose, the Code recommends issuers to define either a fixed amount or the fixed number of years of annual remuneration, requiring companies, in line with EU recommendations, to exclude the severance payment in cases where the end of the mandate is due directors' inadequate performance.

Since 2014, the Code recommends issuers also the provision specific contractual arrangements that allow the claw-back or the retention of the variable compensation (or any

parts thereof) which has been defined on basis of manifestly misstated data (see criterion 6.C.1., f).

The information on the application of the art. 6 shall be provided either in the corporate governance report[98] or in the remuneration report, drawn up by the Italian listed companies in accordance with art. 123-*ter* CLF and related implementing regulations[99].

2.1. Fixed and variable remuneration

One of the key principles of the Code, about the remuneration of executive directors and key management personnel, is based on an appropriate balance between fixed and variable components.

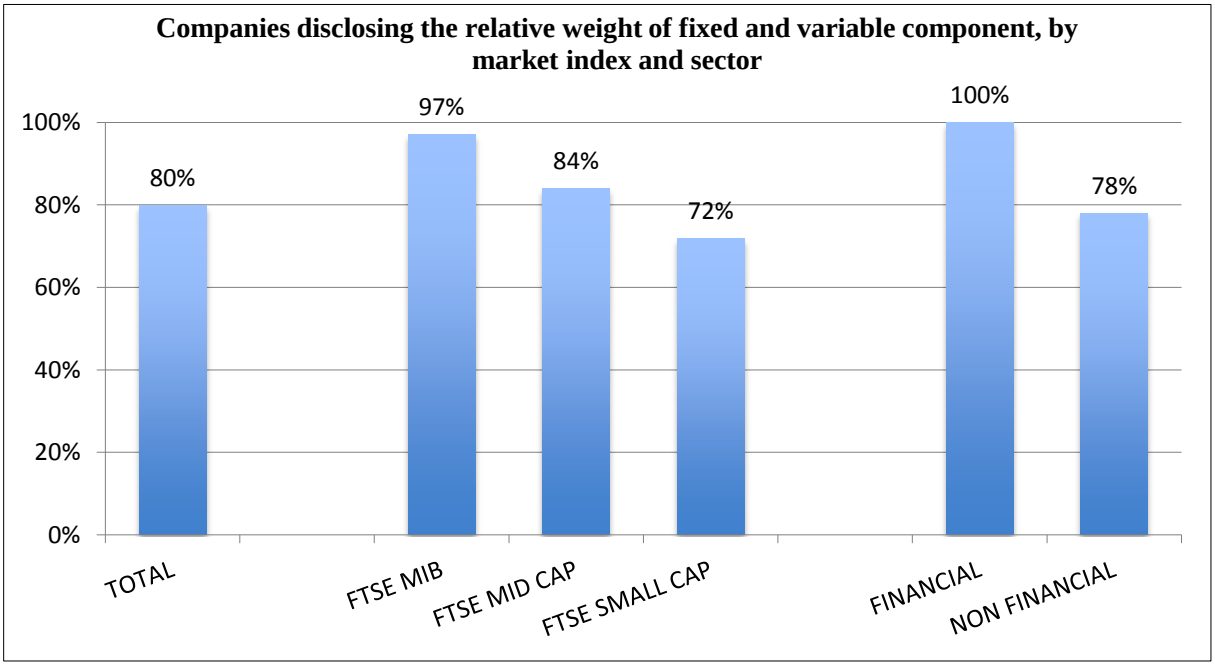
80% of the companies adopting the Code and providing information about the existence of a variable remuneration, disclose the relative weight of the fixed and the variable component of the remuneration package.[100]

The frequency of such disclosure increases according to company's size (97% in FTSE Mib, 84% in Mid Cap, 78% in Small Cap) and is more frequent in the financial sector (where all companies providing for variable remuneration also specify the balance between the two components; it is 78% in the non-financial sector).

[98] In the governance relations are generally reported the information on establishment, composition and operation of the remuneration committee and some clarification of the policy, such as, for example, the provision of an agreement for the severance payments, the exclusion of such payment or the provision of capping bonuses eventually disbursed.

[99] The Board of Directors' report drafted pursuant to article 123-ter of the CLF must provide at least information specified in Schedule 7-bis of Annex 3A to Issuers Regulation. The report is made for this purpose of two sections: the first section identifies the policy adopted by the Board and submitted to an advisory vote at the meeting, while the second section provides a detailed indication, on an individual basis, of the remuneration actually paid to the members of the administration and control's bodies, general managers and, except in special circumstances, to the managers with strategic responsibilities.

[100] Referring to all listed companies (including those non-compliant) the percentage remains stable (80%). Furthermore, there are some non-compliant companies (both financial and non-financial) that provide a ratio between the fixed and the variable compensation. See Assonime-Emittenti Titoli, Tab. 25.



Source: Assonime-Emittenti Titoli 2016

The Committee believes that the lack of information about the proportion between the fixed and the variable remuneration involves also an insufficient information about the appropriateness of the variable component. Consequently, the Committee calls upon issuers to improve the completeness of the remuneration policy regarding the fixed and the variable remuneration, reaffirming the importance of a balanced remuneration structure.

2.2. Variable remuneration's parameters

The Code recommends issuers to identify in their remuneration policies some specific performance goals of the variable remuneration. Performance goals should be predetermined, measurable and linked to the creation of value for shareholders over the medium-long run.

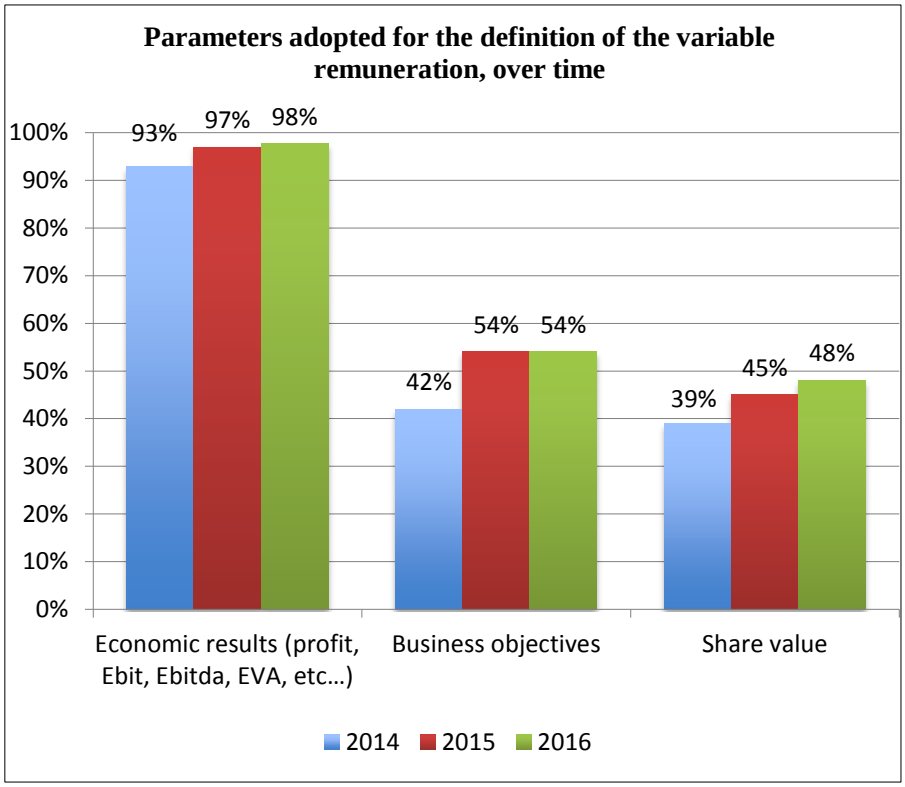
Companies almost always disclose information about the parameters that shall be identified in order to define the variable remuneration. This happens in the 93% of the companies, whose remuneration policy provides for a variable remuneration of executive directors.[101]

Companies may choose between different parameters: most of them opt for accounting indicators (98%), while reference to business targets is less frequent (54%). Moreover, 48% of companies' remuneration policy refers to parameters that are linked to the stock price (stock-based compensation plans or phantom stock plans): such plans are much more frequent

[101] This percentage remains substantially stable even including in the sample companies not compliant with the last edition of the Code. See Assonime-Emittenti Titoli, Tab. 26.

in larger companies (76% of FTSE Mib) and in the financial sector (74% of the cases), especially banks (77%).[102]

Considering only companies adopting the Code, remuneration policies of 177 companies show that the variable remuneration may be short and/or medium-long term oriented. In most of such cases (72%) the policy provides both short term and medium-long term goals, while in 5% of cases policies envisage only medium-long term goals and in 23% of cases variable remunerations are link exclusively to short term objectives. Therefore, we can observe that in 2016 an increase of companies whose remuneration policy is tied to medium-long term goals (137 in 2016 vs. 115 in 2015); nevertheless, long term objectives are still less frequent than short term goals.[103]



Source: Assonime-Emittenti Titoli 2016

The Committee observes the positive increase of variable components linked to medium-long term goals and hopes for a further increase of such long-term objectives also among smaller companies. In cases where variable remuneration is not linked to long-term objectives, the Committee observes that only one third of companies provided an explanation of such non-compliance, as required by Code, and therefore calls upon

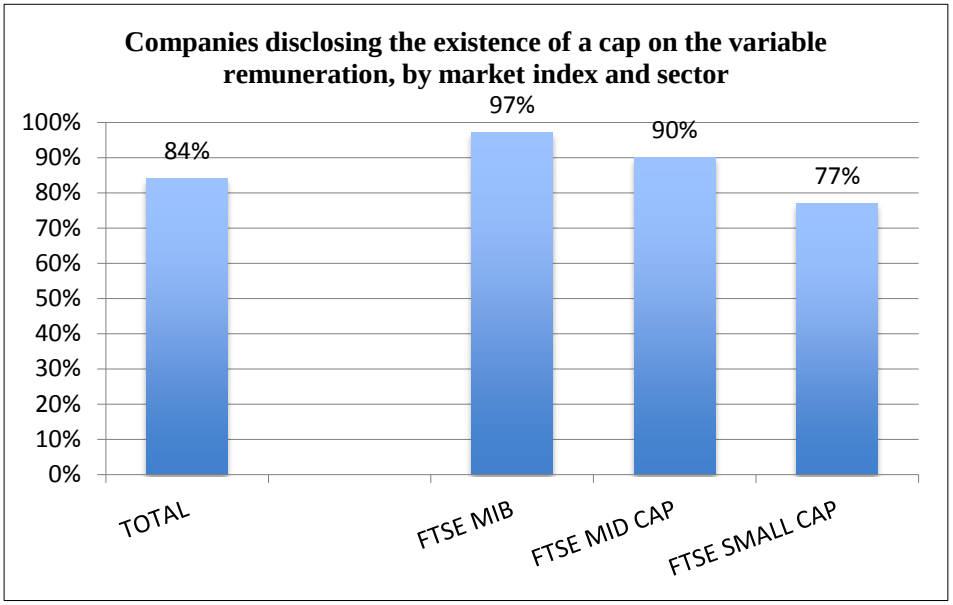
[102] Data are referred to only compliant companies. See Assonime-Emittenti Titoli, Tab. 25.

[103] See above. Data are referred to only compliant companies. See Assonime-Emittenti Titoli, Tab. 25.

issuers to pay more attention to the quality and the quantity of the information disclosed on that point.

2.3. The provision of a cap to the variable remuneration

Remuneration reports that have been published in 2016 show that 84% of companies, who adopt the Code, disclosed their compliance with the recommendation set in criterion 6.C.1. b) and the consequent provision of a cap to the variable component of the remuneration package. The compliance rate varies according to company's size: it is more frequent in larger companies (97% of FTSE Mib) and less frequent in medium (90% in Mid Cap) and small size companies (77% in Small Cap).[104]



Source: Assonime-Emittenti Titoli 2016

Companies that are not providing for a cap to the variable remuneration are basically stable over the time; even if required by the Code, such companies do not provide sufficient information in order to explain their decision not to comply with the Code.

The Committee observes the high percentage of companies providing a cap to the variable remuneration, but, at the same time, it calls upon issuer not complying with such Code recommendation to provide adequate explanations.

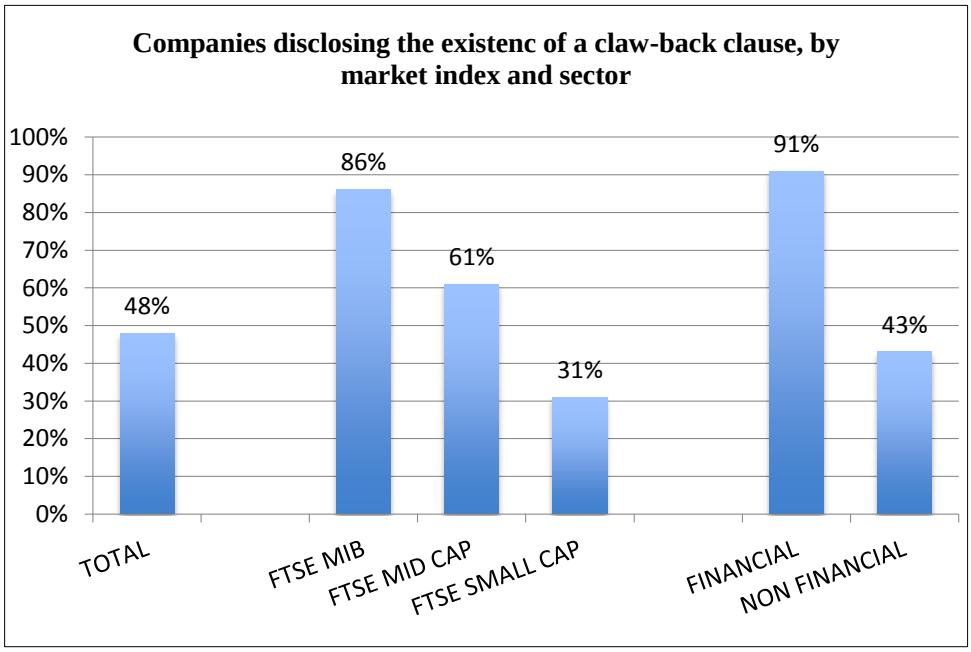
2.4. Claw-back clauses

[104] Percentages are referred only to the companies compliant with the last edition of the Code. See Assonime-Emittenti Titoli, Tab. 25.

As already mentioned, the 2014 Code edition recommends the provision of contractual arrangements in order to permit the company to reclaim, in whole or in part, the variable components of remuneration that were awarded or to hold deferred payments, as defined based on data which subsequently proved to be manifestly misstated.

Claw-back clauses are disclosed in 100 remuneration policies disclosed by companies adopting the Code, i.e. 48% of the aggregate (*vs.* the 34% of the aggregate in 2015).[105] The percentage varies according to firm size (86% of the FTSE Mib firms *vs*. 61% and 29% respectively in Mid Cap and Small Cap companies) and industry (91% in the financial sector *vs*. the 43% in the non-financial sector).

More than 90% of the remuneration policies published by companies adopting the Code and providing a claw-back clause provides information about the trigger events that can activate such clauses.[106]



Source: Assonime-Emittenti Titoli 2016

The fact that more than half of the companies do not provide any claw-back clause yet shows a low compliance rate with such Code recommendations. Nevertheless, it is improving over time if compared to previous years.

2.5. Severance payments' policy

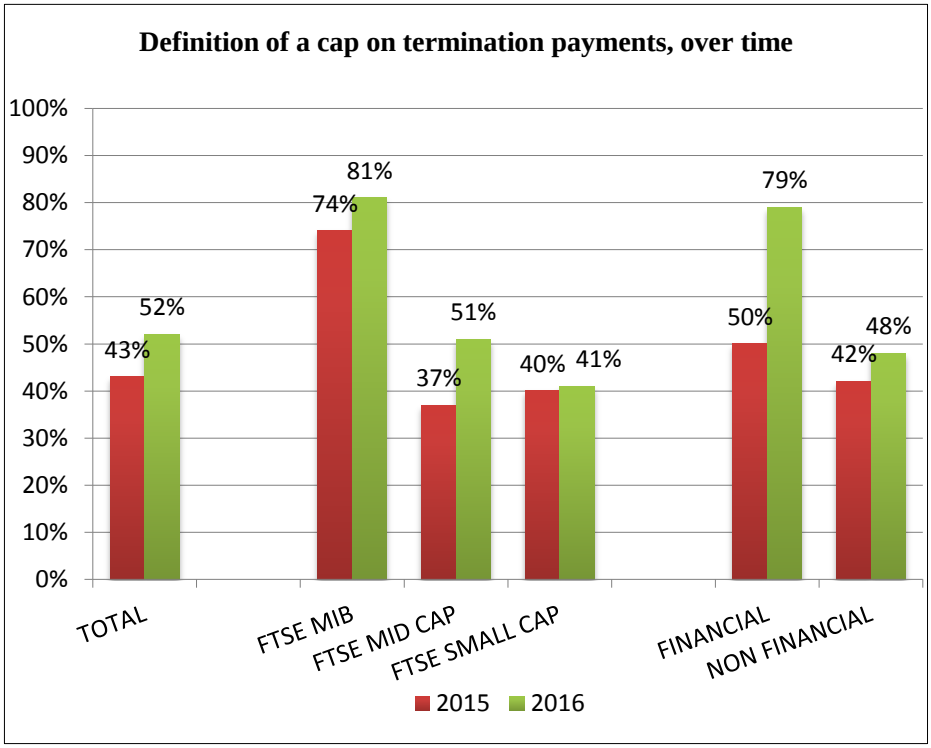
[105] Data are referred to only compliant companies; referring to all companies analysed by Assonime-Emittenti Titoli, there are 105 companies providing for malus and/or claw-back clauses. See Assonime-Emittenti Titoli, Tab. 26.

[106] See Assonime-Emittenti Titoli, Tab. 26.

The Code recommends issuers to fix a cap on the possible payment of severance indemnities: such limit could be represented both by a fixed remuneration and a fixed number of years of annual compensation.[107]

Companies do not always provide clear information about severance payments: on one hand, 15% of them seems to exclude the possibility of severance payments; on the other hand, the remaining 85% envisages the possibility of future payments: one third of such companies disclose the existence of explicit agreements, while the other two thirds do not exclude the possibility of such payments.[108]

In 92 cases (i.e. 52% of the firms providing specific agreements or otherwise the possibility to grant payments; they were 43% in 2015), companies do clearly state the existence of a cap to such severance payments, as recommended by the Code.[109]



Source: Assonime-Emittenti Titoli 2016

The policies of 86 companies adopting the Code[110] do not provide a cap or, anyway, information provided in their remuneration reports is not enough to identify it. The

[107] The parameter identified by the European Commission (Recommendation n. 2009/385/CE) is equal to twice of annual fixed remuneration or its equivalent.

[108] Data are referred to only compliant companies. See Assonime-Emittenti Titoli, Tab. 27.

[109] Data are referred to only compliant companies. See Assonime-Emittenti Titoli, Tab. 27.

[110] See Assonime-Emittenti Titoli, Tab. 27. See Spencer Stuart, p. 52, where it is reported that the most utilized parameter is equal to twice of annual total remuneration.

explanation provided for such choice makes usually reference to the circumstance that no agreements about termination payments have been signed (yet) with directors (and/or with executives with strategic responsibilities).

The Committee points out that the remuneration policies of most listed companies disclose insufficient information about severance payments, insofar they do not provide information about explicit agreements nor about specific caps on the amount of severance payments to be eventually paid out.

III. COMMITTEE'S ACTIONS FOR A BETTER COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

1. Assessment of the effects of the 2015 recommendations

As stated in the first chapter of this Report, during the meeting of July 2016, the Committee has decided to postpone the Code's update, in order to favour the certainty and the clarity of the self-regulatory framework as well as a mature and substantial approach by Italian listed companies to recently introduced Code's recommendations.

The decision not to carry out the revision of the current edition of the Code was also supported by the consideration that the credibility and effectiveness of the Corporate Governance Code need, in first instance, an appropriate monitoring of its application. Indeed, the importance of an adequate oversight of the compliance with Code's recommendations already represented the rationale behind the decision to carry out a Report on the compliance with the CG Code (since 2013) as well as the decision, taken in 2015, to strengthen the effects of the Report by sending a formal letter to all Italian listed companies in order to highlight Committee's main conclusions and recommendations.

The 2015 letter highlighted three main areas of non-compliance, calling companies to consider carefully their compliance rate with such recommendations and, if necessary, to take action in order to improve their adoption within their corporate governance model. Areas of possible improvement were related to: i) board composition; ii) pre-meeting information; iii) boar evaluation.

With regard to the first issue, the Committee highlighted the lack of information provided in, albeit rare, cases of non-compliance with the recommendations regarding the board's composition and the low number of companies, where the board, that is about to expire, issued guidance to shareholders about the optimal composition of the future board of directors.

With reference to the pre-meeting information, the Committee, considered a high compliance rate with the recommendations regarding the functioning of the board and observed a significant improvement in the disclosure of the *ex-post* information about the effective compliance with the prior notice defined *ex-ante* for the submission of the pre-meeting information to the board.

As to the board evaluation, the Committee highlighted the opportunity for a better compliance with the recommendation regarding the information to be disclosed in case of appointment of an external consultant: in particular, the Committee observed the lack of information about the other service provided by such figure, if any.

The information provided with respect to the above-mentioned recommendations have been carefully analyzed in the first part (General) of Chapter II of this Report. Overall, the Committee observed a slight improvement of Italian listed companies, in particular with regard to the quality of information provided *ex-post* on the prior notice defined *ex-ante* for the submission of the pre-meeting information. As observed in Chapter II, there are still some areas for further improvement in relation to the board evaluation and, above all, with regard to the guidance of the expiring board to shareholders about the skills deemed appropriate for future board members.

2. Recommendations for 2016

Taking consideration of the results that emerged from this analysis (see Chapter II) and considering companies' evolution in the areas that have been highlighted in the 2015 letter, the Committee decided to send a new letter, in order to demand companies to improve their corporate governance models in two main areas of concern.

As in 2015, the first area regards the board's role in the definition of its optimal composition. The Committee recalls the task of the expiring board to identify, as a result of the self-evaluation process, the professional skills deemed appropriate for future board members and highlights the important advisory role that the nominee committee could play even in companies with a more concentrated ownership structure.

The second area of possible improvement regards the completeness and the clarity of remuneration policies. Even if the quality of information provided within the remuneration policies is increasing over time, the Committee still observes a low compliance rate with specific Code's recommendations and a lack of information provided in case of non-compliance, where the latter concerns, in particular, the definition of a cap and the weight (with regard to the overall remuneration) of the variable remuneration, the provision of a claw-back clause and the definition of criteria and procedures regarding severance payments.

Taking into consideration also the tasks conferred by the CLF to the board of statutory auditors to check the arrangements adopted for an effective implementation of the corporate governance recommendations provided by a code of conduct, the Committee demands all listed companies to assess carefully the issues pointed out in Chapter II, paying attention to those considered as most significant and, therefore, highlighted in the letter. To ensure an appropriate involvement of all board members, this year the Committee decided to explicitly suggest the opportunity to bring this letter to the attention of the board and their internal committees eventually entrusted with such corporate governance tasks.

Data on the current adoption of the Code disclosed by the Committee's Report and other studies – which the Committee's Report referred to – provide all companies with an overall picture of the compliance rate with main Code's recommendations and represent an important parameter to evaluate their compliance rate with the Code. For this purpose, the Committee invites companies to a more substantial adoption of individual Code's recommendations and to a higher attention on the quality of information provided in their corporate governance reports, both in case of compliance and in that of non-compliance. Indeed, according to Code's guiding principles, companies adopting the Code are called to provide both an adequate information about the compliance and a detailed explanation of non-compliance with individual recommendations.